LONG-TERM UNEMPLOYED

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

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LONG-TERM UNEMPLOYED

TUESDAY, FEBRUARY 26, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 1:05 p.m., in room B-318, Rayburn House Office Building, Hon. Thomas J. Downey (acting chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
WEDNESDAY, FEBRUARY 6, 1991

PRESS RELEASE #4
SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE THOMAS J. DOWNEY (D., N.Y.), ACTING CHAIRMAN, SUBCOMMITTEE ON HUMAN RESOURCES, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON THE LONG-TERM UNEMPLOYED

The Honorable Thomas J. Downey (D., N.Y.), Acting Chairman, Subcommittee on Human Resources, Committee on Ways and Means, U.S. House of Representatives, today announced the Subcommittee has scheduled the third in a series of hearings on unemployment insurance (UI). This hearing on assistance to long-term unemployed workers, will be held on Tuesday, February 26, 1991, at 1:00 p.m. in room B-318 Rayburn House Office Building.

BACKGROUND

On February 1, 1991, the Bureau of Labor Statistics announced the unemployment rate rose from 6.1% in December to 6.2% in January, a full percentage point above the unemployment rate a few months ago. Although this was not a dramatic monthly increase in the unemployment rate, the number of job losses was startling. The economy lost 232,000 jobs in January, and has averaged job losses of 205,000 per month in the last four months. In January the construction industry alone lost 155,000 jobs, or 10% of its previous employment, and manufacturing has lost another 70,000 jobs, adding to the nearly one million manufacturing jobs lost since 1988.

Despite high unemployment, only about two out of five unemployed persons receive unemployment insurance today. One reason for this is that only 26 weeks of benefits are available currently. In past recessions, not only did the additional 13 weeks of extended benefits activate during periods of high unemployment, but Congress added temporary weeks of benefits, peaking at 26 in the aftermath of the 1973-1975 recession. In 1975, some workers could get as many as 65 weeks of benefits. This was a major reason why 75 percent of the unemployed received benefits in 1975.

With the number of persons unemployed longer than 26 weeks climbing by about 140,000 since last summer to 848,000 in January, the question of extending benefits to those exhausting their 26 weeks of benefits arises. In a recent study of benefit "exhaustees," the Department of Labor found that 60 percent were still unemployed 10 weeks after benefit exhaustion. Yet, the study found the intensity of job search as high or higher for these exhaustees than it was for those who had not exhausted their benefits. However, when they did find another job, their average weekly wages were about 16 percent lower than their previous jobs, and nearly two out of five exhaustees suffered reductions in weekly wages exceeding 25 percent.

SCOPE OF HEARINGS

Witnesses at this hearing should address the following questions: What is the current situation of long-term unemployed workers? Are they concentrated in particular industries or spread throughout the workforce? Are these workers poor? What are their financial needs? Do they have health insurance? What happens to them when they exhaust benefits? Do they find jobs, or do they continue to be unemployed? Do they wind up on welfare if they don't find a job? What happens to their families? Why has the Extended Benefits program not activated in this recession? Should Congress reform the Extended Benefits program? Should Congress authorize additional extensions of benefits? If so, how many additional weeks should Congress authorize?

(MORE)

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Testimony at the hearing will be taken from public witnesses. Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler or Diane Kirkland [(202) 225-1721] no later than the close of business, Tuesday, February 19, 1991. The telephone request must be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee [(202) 225-1025].

It is urged that persons and organizations having a common position make every effort to designate one spokesperson to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearing. **(See formatting requirements below.)** This process will afford more time for members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear are required to submit 200 copies of their prepared statements to the Subcommittee office, room B-317 Rayburn House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Persons wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement by the close of business, Tuesday, March 12, 1991, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public, they may deliver 100 additional copies for this purpose to the Subcommittee office on the day of the hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Acting Chairman DOWNEY. The subcommittee will come to order. This week, we hold the last in a series of hearings on unemployment insurance. Today's hearing will address the issue of whether to extend additional weeks of benefits to long-term unemployed. On Thursday, we will examine whether certain types of reemployment assistance could be cost effective.

In our first hearing, we learned that the unemployment insurance system is about 20 percent less effective in countering recessions than it has been in the past. Interstate competition to keep taxes low has suppressed the buildup of reserves in good times, and encouraged benefit cuts in bad times. The net effect has been further damage to the program. This was confirmed at our second hearing by the General Accounting Office and by other witnesses.

The GAO said that if the recession turns out to be worse than the administration assumed, as many as 12 States would be forced to borrow a total of $13 billion from the Federal trust fund; in turn, the Federal trust fund would be short about $1 billion in reserves to lend to those insolvent States. No benefits would go unpaid, however, because the unemployment trust fund would be able to borrow from the General Fund to be able to cover these costs.

I look forward to this hearing because for the first time, we are not talking about such arcane topics as countercyclical effectiveness, or trust fund solvency, but instead we are going to discuss the needs of real workers who are running out of benefits.

I said last time that we are hearing more about workers who can't get benefits or who have run out of benefits than we should. Today we will hear from some of these workers in person and learn what it is like first-hand to feel the bitter effects of being unemployed and not having benefits, which is an awful thing to happen to anyone.

Acting Chairman DOWNEY. The first panel will be comprised of Walter Corson who is the vice president of the Mathematica Policy Research, Inc., Princeton, N.J.; Michael Conte, director of the Center for Business and Economic Studies from the University of Baltimore; and Isaac Shapiro, the senior research analyst, Center for Budget and Policy Priorities.

If these three gentlemen are here, will they please come to the witness table, and we will proceed.

STATEMENT OF WALTER CORSON, VICE PRESIDENT, MATHEMATICA POLICY RESEARCH, INC., PRINCETON, N.J.

Mr. CORSON. Thank you, Mr. Chairman, and members of the subcommittee, I am pleased to have this opportunity to discuss with you unemployment insurance assistance to long-term unemployed workers. I will divide my testimony into two parts. In the first part, I will discuss findings from a recent nationally representative study of UI exhaustees, and in the second part, I will discuss extended benefits policy more generally.

Over 2 million individuals exhausted their UI benefits in calendar year 1990 and it is likely that this number will rise in the current year. This situation raises the question of whether the duration of UI benefits should be extended to alleviate financial hard-

ships and whether other policy responses are necessary to promote more rapid reemployment.

Our recent study sheds some light on these questions. First, we found that the likelihood of exhaustion was higher with higher unemployment rates, suggesting that extending benefits during recessionary periods is appropriate. We also found that the exhaustion of UI benefits creates a financial hardship for many individuals, and few exhaustees receive welfare benefits or food stamps: Thus, UI benefit extensions would have important antipoverty effects.

Second, the analysis suggested that the work disincentive effect did not appear to be a dominating factor in explaining the exhaustion of benefits. Of the workers who exhausted their UI benefits 75 percent were jobless 4 weeks after receiving their final payment, and 60 percent were still jobless 10 weeks after receiving their final payment. Under these circumstances, extending the potential duration of UI benefits may reduce the financial hardships of exhaustion considerably while creating only mild disincentive effects.

Finally, we found that dislocated workers and low-skilled workers who did not expect to be recalled were likely to face serious reemployment difficulties. Targeting reemployment services at these workers may be appropriate.

Since 1971, the permanent extended benefits program has provided additional weeks of UI benefits during recessionary periods. A number of changes were made in this program in the early 1980s. The result of these changes, combined with the overall decline in UI claims, has resulted in a dramatic decline in extended benefits; in effect, the current program is almost nonexistent.

Given this situation, I believe that it is sensible to revamp the current extended benefits program. To do so requires that a number of design issues be addressed. Three important decisions concern the duration of benefits, the degree of sensitivity to changes in the labor market, and the appropriate mechanism to trigger-on benefits.

One possible criteria for establishing the appropriate number of weeks would be to extend benefits sufficiently to prevent the benefit exhaustion rate from rising during recessions. Previous analysis suggests that this goal could be achieved by extending the potential duration of benefits by 3 to 5 weeks for every 1 percentage point increase in the unemployment rate.

This rationale for extending UI benefits suggests that the duration of these benefits should be adjusted with labor market conditions. A temporary extended benefits program in the early 1980s attempted to meet this objective, by adjusting duration in 2-week increments. Our analysis found that this degree of sensitivity to labor market conditions was ineffective in directing benefits to States where labor markets were weakest. Hence, larger increments and fewer levels would be more effective.

The rationale for extending benefits is to provide additional UI benefits during periods of high unemployment. The insured unemployment rate has been used to trigger extended benefits, since it measures unemployment among the population covered by each State's UI program. However, the insured unemployment rate does not provide a direct measure of overall labor market conditions, which is the relevant factor for an unemployed individual, whether

or not he or she receives UI. The total unemployment rate provides this measure and it makes sense to consider using it as a trigger for extended benefits.

In conclusion, the findings from our recent study of UI exhaustees, indicate that many exhaustees continue to be unemployed for long periods, following the exhaustion of benefits. This suggests that it is sensible to extend the duration of UI benefits during periods of high unemployment. In addition, the changes made in the early 1980s in the current extended benefits program reduced the availability of extended benefits substantially. I believe that changes should be made to make this program more responsive to increases in unemployment.

Thank you.

[The prepared statement follows:]

STATEMENT ON UNEMPLOYMENT INSURANCE ASSISTANCE
TO LONG-TERM UNEMPLOYED WORKERS
FOR THE SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
FEBRUARY 26, 1991

Walter Corson
Vice President
Mathematica Policy Research

Mr. Chairman and members of the subcommittee, I am pleased to have this opportunity to discuss with you unemployment insurance assistance to long-term unemployed workers. I will divide my testimony into two parts. In the first part I will discuss findings from a recent nationally representative study of UI recipients and exhaustees, and in the second part I will discuss extended benefits policy, more generally. I will base my comments on findings from this recent study (Corson and Dynarski, 1990) and on research on long-term unemployment and unemployment insurance policy that myself and my colleagues at Mathematica Policy Research have conducted over the last 15 years (see reference list).

I conclude that it is sensible to extend the duration of UI benefits during periods of high unemployment to alleviate the financial hardships imposed on the long-term unemployed. I also recommend ways in which the current extended benefits program could be restructured to achieve this objective.

UI EXHAUSTEES

Over 2 million individuals exhausted their UI benefits in calendar year 1990, and it is likely that this number will rise in the current year. This situation raises the question of whether the duration of UI benefits should be extended to alleviate the financial hardships caused by the cessation of UI benefits and whether other policy responses are necessary to promote more rapid reemployment. In addition to benefit extensions such policy responses might entail strengthening the work-search monitoring of claimants as their unemployment spells lengthen, to encourage them to find and accept jobs, or providing exhaustees with enhanced or expanded reemployment services (for example, job-search workshops, job referrals, or job training).

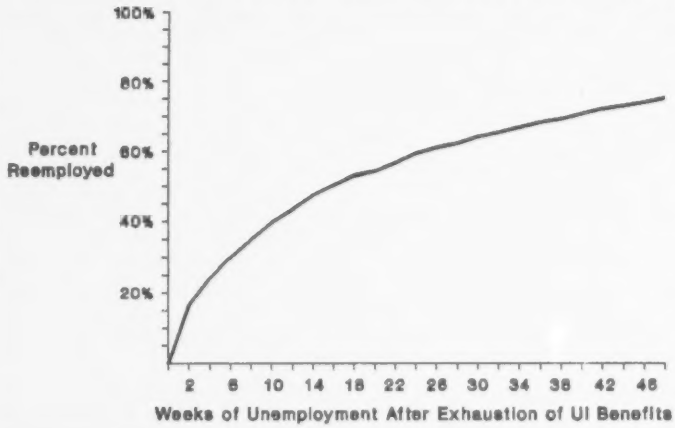
Determining the appropriate mix of policies and how they might be directed toward different types of exhaustees depends on the reasons that claimants exhaust their benefits. If benefit exhaustion occurs because sufficient job openings are not available to reemploy all recipients, benefit extensions might be appropriate. If, instead, benefit exhaustion is due to the work disincentive effects of UI, the policy response might be to take administrative actions to encourage greater work search among claimants. Finally, if exhaustions stem from a mismatch between the skills of some recipients and the skill requirements of available jobs, job training and job-search counseling might be appropriate for these individuals.

Our recent study of UI exhaustees and nonexhaustees sheds some light on these questions. First, we found, as have other studies, that the likelihood of exhaustion was higher with higher unemployment rates suggesting that extending benefits during recessionary periods is appropriate. We also found that while substantial numbers of recipients have income from their spouse's earnings or other sources (40 percent of the exhaustees had spouses who worked) the exhaustion of UI benefits creates a financial hardship for many individuals. A recent Congressional Budget Office (CBO) study (Smith and Vavrichek, 1990), which examined this issue in more detail, found that "for about one-fourth of long term recipients, UI benefits made the difference between a monthly income above or below the poverty line." Similar results were found in a study we conducted of the Federal Supplemental Benefits program in the mid-seventies. The current study of exhaustees as well as these earlier studies also found that few UI exhaustees receive welfare benefits (7 percent) or Food Stamps (10 percent). Thus UI benefit extensions would have important anti-poverty effects.

Second, the analysis suggested that the work disincentive effect did not appear to be a dominating factor at explaining the exhaustion of UI benefits. While some exhaustees indicated that they had not searched for work when they first began receiving UI (11 percent said that they had not looked for work and gave reasons for not looking that would classify them as out of the labor force), the vast majority did look for work and the intensity of their search effort matched that of non-

FIGURE I

PERCENT OF UI EXHAUSTEES REEMPLOYED
BY LENGTH OF UNEMPLOYMENT SPELL AFTER EXHAUSTION



exhaustees. In addition, 75 percent of the workers who exhausted their UI benefits were jobless 4 weeks after receiving their final UI payment, and 60 percent were still jobless 10 weeks after receiving their final UI payment (see Figure 1). Since the study examined UI recipients during a nonrecessionary period (1988), these numbers are likely to be higher in the current recessionary period. Finally, over half of the workers who found jobs after exhausting their UI benefits received lower weekly wages than on their pre-UI job. None of these results is consistent with strong disincentive effects. Under these circumstances, extending the potential duration of UI benefits may reduce the financial hardships of exhaustion considerably, while creating only mild disincentive effects for some workers.

Finally, we found that dislocated workers and low-skill workers who did not expect to be recalled were likely to face serious reemployment difficulties. These individuals had lower reemployment rates, higher exhaustion rates, and longer unemployment spells than did other recipients, and they had lower average wages and worked fewer hours on post-UI jobs. Moreover, a substantial portion of these individuals did not receive reemployment services. Targeting reemployment services at dislocated workers and at low-skill workers who do not expect to be recalled may be appropriate.

EXTENDED BENEFITS

Since 1971, the permanent Extended Benefits (EB) program, as well as two major temporary extended benefits programs--the Federal Supplemental Benefits (FSB) program in the 1970s and the Federal Supplemental Compensation (FSC) program in the 1980s, have provided additional weeks of UI benefits during recessionary periods. The EB program is "triggered on" when a state's Insured Unemployment Rate (IUR) exceeds specified levels. These levels were raised in 1982 from 4 to 5 percent (or to 6 percent if the requirement that the IUR also exceed 120 percent of the corresponding average IUR in the prior two years is waived). A number of other changes were also made in the permanent EB program that made it more difficult for states and individuals to qualify for benefits. The result of these changes combined with the overall decline in UI claims by the unemployed (which itself has reduced state IURs) has resulted in a dramatic decline in benefits from the EB program. In effect the current program is almost nonexistent.

Given this situation I believe that it is sensible to revamp the current extended benefits program. To do so requires that a number of design issues be addressed.

1. How many additional weeks of UI benefits should be provided under benefit extensions?

One possible criterion for establishing the appropriate number of weeks would be to extend benefits sufficiently to prevent the benefit exhaustion rate from rising during recessions. This goal would, in a rough way, provide equal insurance to individuals who lose their jobs during recessionary periods as is available to individuals who lose their jobs during nonrecessionary periods. Previous analysis suggests that this goal could be achieved by extending the potential duration of benefits by 3 to 5 weeks for every one percentage point increase in the insured unemployment rate.

2. How many levels or tiers of benefits should there be?

The rationale for extending UI benefits suggests that the duration of these benefits should be adjusted with labor market conditions being longer when conditions are worse. The Federal Supplemental Compensation (FSC) program attempted to meet this objective by adjusting duration in 2 week increments that could change over frequently within a state. Our analysis found that this degree of sensitivity to labor market conditions was ineffective in directing benefits to states and time periods where labor markets were weakest. Moreover, implementation of these frequent changes added great complexity to the administration of the program. Hence larger increments and fewer levels would be more effective than FSC.

3. What trigger mechanism should be used?

The rationale for extending benefits is to provide additional UI benefits during periods of high unemployment. State Insured Unemployment Rates (IURs) have been used to trigger extended benefits since they measure unemployment among the population covered by each state's UI program. However, the IUR does not provide a direct measure of overall labor market conditions which is the relevant factor for an unemployed individual whether he or she receives UI or not. The total unemployment rate (TUR) provides this measure. Moreover, since IUR levels differ substantially among states independent of overall labor market conditions, there are states that have high TURs and sufficiently low IURs that they do not trigger onto EB. For example, 30 percent of the time during the 1980s in which a state had a TUR above 9 percent in a quarter the IUR was below the original 4 percent EB trigger point. For this reason I believe it makes sense to consider using the TUR as a trigger for extended benefits. I would also use a seasonally adjusted trigger if possible to avoid the pattern that has occurred in the EB program of states triggering on every winter when seasonal unemployment is high and triggering off every spring or summer.

4. Should the program be permanent or temporary?

Over the last twenty years extended benefits have been provided both through the permanent EB program and through two major temporary programs--FSB in the 1970s and FSC in the 1980s. Both of these temporary programs were enacted rather late in the recessions that they were intended to address and they both continued to pay benefits into periods of relatively healthy labor markets. Hence, the degree of UI protection afforded by these programs and their macroeconomic stimulus were not as significant as might have been expected. In addition, these programs both contained a number of complex features designed to provide benefits to individuals who would have received benefits earlier if the programs had been in effect. These features were difficult to implement and had unintended and probably undesirable consequences. These problems are probably endemic to temporary programs. The shortcomings of the current EB program should not obscure the fundamental desirability of have such a permanent program available.

5. Should there be additional qualifying requirements for eligibility?

The permanent extended benefits program as well as the FSC and at times the FSB program contained nationally uniform monetary eligibility requirements. The intent of these provisions was to assure some similarity in the treatment of extended benefits claimants across states. Our research has shown that the effect of these requirements was to reduce eligibility for extended benefits by a small degree. Since implementing such requirements can be administratively cumbersome, such additional eligibility requirements for extended benefits programs are probably not cost-effective.

6. Should extended benefits be provided at substate levels?

Substate extended benefits programs have been proposed to target benefits to local areas that have particularly severe unemployment that is often structural in nature. A substate program would presumably be triggered on using substate unemployment rates, yet these rates depend importantly on the pattern of seasonal economic activity. Using them as triggers would mean that substate benefits would be directed more towards areas with high seasonal unemployment than to areas with high structural unemployment. This situation as well as the difficult administrative and statistical

problems that would arise in implementing a substate program mean that a substate program is probably not a good way to direct benefits to workers who suffer from major structural dislocations. A better way of directing extended benefits to such workers would be to extended benefits to dislocated workers directly, say by requiring additional work experience beyond the one year base period used in the regular UI program.

SUMMARY

Findings from our recent study of UI exhaustees and nonexhaustees indicate that many exhaustees continue to be unemployed for long periods following the exhaustion of benefits. This finding suggests that it is sensible to extend the duration of UI benefits during periods of high unemployment to alleviate the financial hardships imposed on the long-term unemployed. It also suggests that the disincentive effects associated with such extensions are likely to be mild.

Changes made in the early 1980s in the current extended benefits program reduced the availability of extended benefits substantially. Changes should be made to make this program more responsive to increases in unemployment. Possible changes include using the total unemployment rate to direct benefits to states with high unemployment and adjusting, in a limited way, the duration of benefits with labor market conditions. As a guide, past analysis suggests extending potential duration of benefits by 3 to 5 weeks for every one percentage point increase in the unemployment rate.

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Acting Chairman DOWNEY. Thank you, Mr. Corson.
Mr. Conte.

STATEMENT OF MICHAEL A. CONTE, DIRECTOR, CENTER FOR BUSINESS AND ECONOMIC STUDIES, UNIVERSITY OF BALTIMORE, BALTIMORE, MD.

Mr. CONTE. Mr. Chairman, and members of the subcommittee, I would like to thank you for the opportunity to appear today and provide some information about the causes of the recent increase in the AFDC caseload in Maryland, as well as the eligibility of AFDC applicants in Maryland for unemployment insurance.

Our study, conducted in partnership with the Maryland Department of Human Resources, was primarily concerned with the causes of the increase in the AFDC caseload in Maryland which began in August 1989 and has continued through last month. Our analysis was not primarily concerned with unemployment insurance. However, this was a topic of interest to us, and our survey contains several questions pertaining to UI. We have prepared some special tabulations from our data for purposes of this testimony.

I will first summarize our conclusions pertaining to the causes of the AFDC caseload increases and then I will discuss our special tabulations on the relationship with UI.

The central finding of the study is that the recession in Maryland was the primary cause of the continuous and sharp increase in the AFDC caseload which commenced in August 1989, and continued even to last month. It was not clear at the beginning of this period of time the increases in the caseload were attributable to deterioration in the State's economy, primarily because the State's economy did not appear to be deteriorating. In August 1989, Maryland's unemployment rate was 3.5 percent which was 1.6 percent below that of the Nation. Subsequently the State's unemployment rate fell even below that level and did not begin to increase significantly until June 1990. This disparity between the trend in the welfare caseload and the trend in the State unemployment rate is captured in an accompanying figure.

Our primary finding was that the AFDC caseload is, itself, an exceptionally good leading indicator of recession in the State's economy. We compared movements in the Maryland Index of Leading Economic Indicators which was developed by our center and the AFDC caseload. As you can see in the accompanying graph, monthly data on paid cases are virtually a mirror image of the leading economic index. This implies that the AFDC caseload should begin to rise anywhere from 6 months to 1 year prior to the first visible sign of recession as measured by increases in the unemployment rate. This relationship was, indeed, borne out in 1989 and 1990. The Maryland unemployment rate begun to rise in May 1990, 9 months after the series of monthly increases in the AFDC caseload commenced.

About two-thirds of the caseload increase was actually not due to individuals being laid off or fired. Rather this two-thirds resulted from applicants not finding jobs at the same rate that they had prior to August 1989. A slowdown in hiring is a well-documented predecessor to recession. These data are consistent with the notion that, when participating in the labor force, individuals who are prone to rely on AFDC benefits are among the first to be fired and the last to be hired.

The increases in the AFDC caseload came both from relatively early job terminations, and a slowdown in hiring among this group of individuals. Nonetheless, the newly fired or laid off did constitute a significant portion of those applying for AFDC benefits in the time period under consideration. This is documented using data from our survey of AFDC applicants, summarized below and in the accompanying tables.

The findings of our study are based on a survey of AFDC recipients conducted in September and October 1990. Since AFDC recipients must apply for a redetermination of their status every 6 months, we were able to compile a time-series comparison by surveying both new applicants and applicants for redetermination. We broke down the respondents into two groups; those who had first applied for assistance in 1990, and those who had first applied in 1988 and 1989.

Of the 674 respondents who had first applied for assistance in 1990, 47 percent had left a job in the 6-month period prior to first applying for AFDC, compared with 28.7 percent of the respondents who had first applied in 1988 or 1989. Moreover, of the 1990 applicants who had left the job in the 6 months prior to applying for AFDC, 36 percent had been fired or laid off, compared with 26 percent of job leavers in 1988 or 1989.

These survey results strongly support the view that the AFDC caseload increases were caused by economic conditions. In our study we evaluated other possible causes for the increase in the caseload, and found that the other hypotheses which have been put forward by various parties did not appear to have merit. While social, demographic, and policy factors clearly play significant roles in determining the size of the AFDC population in the long-term, we concluded that the shortrun increase in the Maryland caseload was driven almost exclusively by economic factors.

I will now turn to the relationship between AFDC and the unemployment insurance system. It is not possible on the basis of the results from our survey data to draw firm conclusions about the rate of eligibility of AFDC applicants for unemployment insurance in the State of Maryland. This is for two reasons. First, the survey responses reflect only the feelings of the respondents, and not the expert judgment of an administrator of the UI system. Second, we have not performed cross-tabulations of the responses which would be necessary to create a category of UI eligibles among the respondent group. Nonetheless, the responses may be of some interest, if for no other reason, to encourage further study of the issue which might address the outstanding data needs in this area.

According to Maryland State law, the following factors would disqualify applicants for unemployment insurance: leaving a job voluntarily, being fired for gross misconduct, failing to search for work, or accept suitable work, or not earning enough in the base period.

According to tables accompanying prior testimony before this subcommittee by Sharon K. Long and Wayne Vroman, Maryland is at the median in terms of applicants for unemployment insurance as a percentage of new job leavers. Therefore, from this perspective, Maryland is an appropriate State to use for purposes of this analysis.

Table II shows that of new applicants, in September and October 1990, who indicated that they had left jobs within the prior 6 months, only a very small proportion—5.2 percent—had actually received unemployment insurance payments. Another 13 percent were waiting for their applications for unemployment insurance to be approved.

Considering that we did not obtain usable responses on this question from 22.7 percent of the survey respondents, this indicates that only about 23 percent of applicants were sufficiently confident that they might qualify for UI benefits that they actually applied for them.

It is to be expected that fewer members of the AFDC applicant pool would expect to be covered by unemployment insurance, given that this group consists of the most marginal members of the work force. In fact, 57.4 percent of the applicants who were job leavers in the prior 6 months stated that they were not eligible for unemployment insurance. Of interest, for present purposes, is that this includes 46.9 percent of those who had been fired, and 56.9 percent of those who had been laid off.

Table IV breaks the respondent group down by length of time in last job. As expected, a high proportion—67.9 percent—of the respondents who had been in their job less than 3 months felt that they did not qualify for UI. Still, 55 percent of those who had been in their prior job for 6 months to 1 year, and 49.4 percent of those who had been in their prior job for more than 1 year said that they did not qualify.

Table V analyses the impact of varying wage rates on UI eligibility. Next 71.4 percent of the respondents, who had left jobs in the prior 6 months, and who had earned less than $4 per hour were not eligible, most likely due to minimum earning levels. However, more than 47 percent of those who had earned $5 to $7 per hour indicated that they would be ineligible for UI.

In conclusion, our data show that even among those who would appear on the surface to meet the major qualifications for receipt of UI benefits, many did not feel that they could qualify for benefits. This includes numerous individuals who, prior to losing their jobs and applying for AFDC benefits, had worked full-time for periods in excess of 1 year, and who had received wages in excess of $5 per hour over that time. It is useful to repeat, however, that we have not conducted a complete analysis of the eligibility for UI of members of our respondent group. The survey evidence discussed in this testimony points more toward need for additional data, than toward conclusions about UI policies.

Thank you.

[The prepared statement follows:]

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Michael A. Conte, Director
Center for Business and Economic Studies
University of Baltimore

Mr. Chairman, and members of the Committee, I would like to thank you for the opportunity to appear today and provide some information about the causes of the recent increase in the AFDC caseload in Maryland, as well as the eligibility of AFDC applicants in Maryland for unemployment insurance.

Our study, conducted in partnership with the Maryland Department of Human Resources, was primarily concerned with the causes of the increase in the AFDC caseload in Maryland, which began in August, 1989 and has continued through last month. Our analysis was not primarily concerned with unemployment insurance. However, this was a topic of interest to us, and our survey contained several questions pertaining to UI. We have prepared some special tabulations from our data for purposes of this testimony.

In this testimony, I will first summarize our conclusions pertaining to the causes of the AFDC caseload increase, and then I will discuss our special tabulations on the relationship with UI.

Impact of the Recession on the AFDC Caseload

The central finding of the study is that the recession in Maryland was the primary cause of the continuous and sharp increase in the AFDC caseload which commenced in August, 1989 and continued even to last month. It was not clear at the beginning of this period of time that the increases in the caseload were attributable to deterioration in the state's economy, primarily because the state's economy did not appear to be deteriorating. In August, 1989, Maryland's unemployment rate was 3.5%, which was 1.6% below that of the nation. Subsequently, the state's unemployment rate fell even below that level, and did not begin to increase significantly until June, 1990. This disparity between the trend in the welfare caseload and the trend in the state unemployment rate is captured in the accompanying figure entitled: "MD Unemployment Rate vs AFDC Paid Cases."

Our primary finding was that the AFDC caseload is itself an exceptionally good leading indicator of recession in the state's economy. This is seen by reference to the second graph attached, entitled: "Maryland AFDC Paid Cases vs Leading Economic Index." In this graph, we compare movements in the Maryland Index of Leading Economic Indicators, which was developed by our Center, and the AFDC caseload. As you can see, the monthly data on paid cases are virtually a mirror image of the leading economic index, except for the sharp drop in paid cases at the end of 1981 which was caused by a change in eligibility rules under the Omnibus Budget Reconciliation Act (OBRA). This implies that the AFDC caseload should begin to rise anywhere from six months to one year prior to the first visible sign of recession, as measured by increases in the unemployment rate. This relationship was indeed borne out in 1989 and 1990. The Maryland unemployment rate began to rise in May, 1990, nine months after the series of monthly increases in the AFDC caseload commenced.

Maryland AFDC caseload and applications data indicate that about two-thirds of the caseload increase was actually not due to individuals being laid off or fired - rather, this two-thirds resulted from applicants not finding jobs at the same rate they had prior to August, 1989. A slowdown in hiring is a well-documented predecessor to recessions. These data are consistent with the notion that, when participating in the labor force, individuals who are prone to rely on AFDC benefits are among the "first to be fired and last to be hired." The increases in the AFDC caseload came both from relatively early job terminations and a slowdown in hiring from this group of individuals.

Nonetheless, the newly fired or laid off did constitute a significant portion of those applying for AFDC benefits in the time period under consideration. This is documented using data from our survey of AFDC applicants, summarized below and in the accompanying tables.

Methodology of Study

The findings of our study are based on a survey of AFDC recipients conducted in September and October 1990. We used only the responses from participants in the Basic Program which is aimed at providing income support to non-intact families. The AFDC Unemployed Persons Program, which is aimed at families which are intact but in which the main wage earner is unemployed, forms a very small portion of the State's AFDC Program (692 AFDC-UP cases compared with 71,520 cases for the Basic Program). The AFDC-UP program has, to this point, made no significant contribution to the caseload increase. Virtually all of the increases have come from the Basic Program.

Since AFDC recipients must apply for a redetermination of their status every six months, we were able to compile a time series comparison by surveying both new applicants and applicants for redetermination. We broke down the respondents into two groups: those who had first applied for assistance in 1990 and those who had first applied in 1988 and 1989. There were 674 individuals in the former group and 268 in the latter. Respondents were drawn from 17 of Maryland's 24 major political jurisdictions, with the largest part of the sample from the five major jurisdictions.

Results of the Survey

Of the 674 respondents who had first applied for assistance in 1990, 47% had left a job in the six month period prior to first applying for AFDC, compared with 28.7% of the respondents who had first applied in 1988 or 1989. Moreover, of the 1990 applicants who had left a job in the six months prior to applying for AFDC, 36% had been fired or laid off, compared with 26% of job-leavers in 1988 or 1989. These survey results strongly support the view that the AFDC caseload increases were caused by economic conditions.

Moreover, the fact that the caseload is a leading indicator explains why the Maryland unemployment rate did not rise until significantly later. The caseload increase began in August 1989, but the unemployment rate actually fell until May 1990, when it began to rise steadily.

In our study, we evaluated other possible causes for the increase in the caseload, and found that the other hypotheses which had been put forward by various parties did not appear to have merit. While social, demographic, and policy factors clearly play significant roles in determining the size of the AFDC population in the long term, we concluded that the short-run increase in the Maryland caseload was driven almost exclusively by economic factors.

Relationship between AFDC and Unemployment Insurance (UI)

While our analysis was not primarily concerned with unemployment insurance, this was a topic of interest to us, and our survey contained several questions pertaining to UI. We have prepared some special tabulations from our data for the purposes of this testimony.

Note that it is not possible on the basis of the results from our survey data to draw firm conclusions about the rate of eligibility of AFDC applicants for unemployment insurance in the state of Maryland. This is for two reasons: first, the survey responses reflect only the feelings of the respondents, and not the expert judgement of an administrator of the UI system. Second, we have not performed cross-tabulations of the responses, which would be necessary to create a category of "UI eligibles" among the respondent group. We do not have enough cells in the cross-tabulations to provide significant response differences across eligibility groups. Nonetheless, the responses may be of some interest, if for no other reason than to encourage further study of the issue which might address the outstanding data needs in this area.

According to Maryland state law, the following factors would disqualify applicants for unemployment insurance: leaving a job voluntarily, being fired for gross misconduct, failing to search for work or accept suitable work, or not earning enough in the base period, which is the first four of the last five calendar quarters completed before the first claim for benefits is filed.

According to tables accompanying prior testimony before this subcommittee by Sharon K. Long and Wayne Vroman, Maryland is at the median in terms of applicants for unemployment insurance as a percentage of new job leavers. Therefore, from this perspective, Maryland is an appropriate state to use for the purpose of this analysis.

Table 2 shows that, of new applicants in September-October 1990 who indicated that they had left their jobs within the prior six months, only a very small proportion (5.2%) had actually received unemployment insurance payments. Another 13.0% were waiting for their applications for unemployment insurance to be approved. Considering that we did not obtain usable responses on this question from 22.7% of the survey respondents, this indicates that only about 23% of applicants were sufficiently confident that they might qualify for UI benefits that they actually applied for them. (This number is arrived at by adding the 5.2% plus 13.0%, and adding an appropriate factor reflecting the non-response.) This is substantially below the finding reported in the prior testimony of Long and Vroman that, on average, 53% of job leavers apply for UI benefits.

It is to be expected that fewer members of the AFDC applicant pool would expect to be covered by unemployment insurance, given that this group consists of the most marginal members of the work force who are particularly likely not to meet the minimum wage requirements and other qualifications.

In fact, 57.4% of the AFDC applicants who were job leavers in the prior six months stated they were not eligible for unemployment insurance. Of interest for present purposes is that this includes 46.9% of those who had been fired, and 56.9% of those who had been laid off. (Note that 24% of the applicants did not respond to this question.)

Table 4 breaks the respondent group down by length of time in last job. As expected, a high proportion (67.9%) of the respondents who had been in their last job less than 3 months felt that they did not qualify for UI. Still, 55% of those who had been in their prior job for 6 months to 1 year and 49.4% of those who had been in their prior job for more than a year said that they did not qualify.

Table 5 analyzes the impact of varying wage rates on UI eligibility. 71.4% of respondents who had left jobs in the prior 6 months and who had earned less than $4 per hour were not eligible for UI, most likely due to minimum earnings levels. However, more than 47% of those who had earned $5 - $7 per hour indicated

that they would be ineligible for UI.

Table 6 breaks the responses down by weekly hours worked. It shows that 70.4% of those who worked less than 20 hours per week felt that they were ineligible for UI. 55.6% of those who worked full time (35 hours per week or more) felt that they would be ineligible.

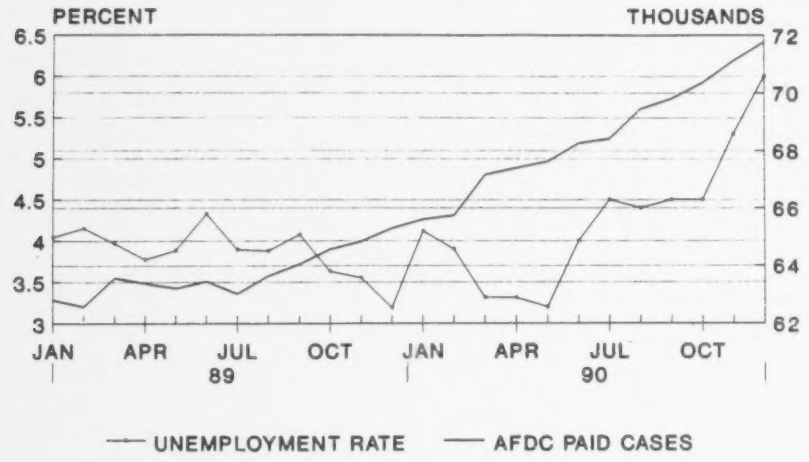
Tables 7 and 8 provide an industrial and occupational distribution of ineligibility percentages, showing that applicants who worked in the service sector, such as hotels and restaurants, finance, insurance and real estate, health, and retail and wholesale trade, were the least likely to qualify for UI, while those who had been employed in manufacturing, construction or government were largely eligible for UI. Other figures, not shown here, confirm that the former industries had the highest concentrations of welfare applicants in the time period under consideration.

This is consistent with the occupational data reported in Table 8. Individuals working as janitors/cleaners were the least likely to be eligible for unemployment insurance (76.9%), followed by hotel/restaurant workers (73.1%). Managerial/professional employees were also likely not to qualify for UI; however, few AFDC respondents fall into this occupational category.

Conclusions

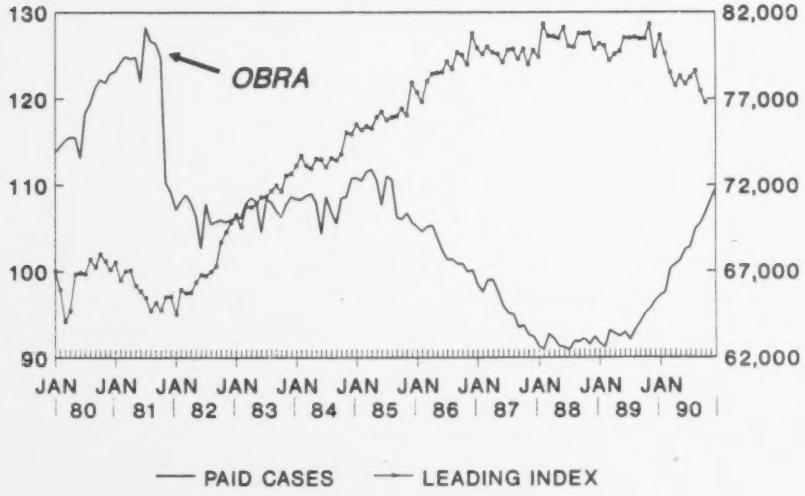
Overall, our data show that even among those who would appear on the surface to meet the major qualifications for receipt of UI benefits, many did not feel that they could qualify for benefits. This includes numerous individuals who, prior to losing their jobs and applying for AFDC benefits, had worked full time for periods in excess of one year, and had received wages in excess of $5 per hour over that period of time. It is useful to repeat, however, that we have not conducted a complete analysis of the eligibility for unemployment insurance of members of our respondent group. The survey evidence discussed in this testimony points more toward the need for additional data than toward conclusions about UI policies.

MD UNEMPLOYMENT RATE vs AFDC PAID CASES



SOURCE: MARYLAND DEPARTMENT OF HUMAN RESOURCES AND MARYLAND DEPARTMENT OF EMPLOYMENT AND ECONOMIC DEVELOPMENT

MARYLAND AFDC PAID CASES vs LEADING ECONOMIC INDEX



SOURCE: MARYLAND DEPARTMENT OF HUMAN RESOURCES CENTER FOR BUSINESS AND ECONOMIC STUDIES, UNIV OF BALTIMORE

TABLE 1

AFDC APPLICANTS' REASONS FOR LEAVING JOBS
1988 TO 1990

	Applied 3/90 to 9/90			Applied 9/88 to 9/89		
		% of Total	% of Left Job		% of Total	% of Left Job
TOTAL	674			268		
Left job in prior 6 months	317	47.0%		77	28.7%	
Fired/laid off	114		36.0%	20		26.0%
Quit	184		58.0%	55		71.4%
No response	19		6.0%	2		2.6%

Source: University of Baltimore, Center for Business & Economic Studies

TABLE 2

RECENT AFDC APPLICANTS – ELIGIBILITY FOR UNEMPLOYMENT INSURANCE

	Applied 9/90		
		% of Left job	% of Rec'd
Left job in prior 6 months	230		
Not eligible for unemployment insurance	132	57.4%	
Awaiting approval	30	13.0%	
Received unemployment insurance	12	5.2%	
Immediately after leaving job	6		50.0%
1 month after	4		33.3%
2–3 months after	1		8.3%
More than 3 months after	1		8.3%
Still receiving unemployment insurance	4	1.7%	

Source: University of Baltimore, Center for Business & Economic Studies

TABLE 3

AFDC APPLICANTS' REASONS FOR LEAVING JOBS AND ELIGIBILITY FOR UNEMPLOYMENT INSURANCE (UI)

	% of Applicants Not Eligible for UI
TOTAL – Left jobs in prior 6 months	57.4%
Fired	46.9%
Laid Off	56.9%
Quit	59.4%

Source: University of Baltimore, Center for Business & Economic Studies

TABLE 4

AFDC APPLICANTS' LENGTH OF TIME IN LAST JOB AND ELIGIBILITY FOR UNEMPLOYMENT INSURANCE (UI)

	% of Applicants Not Eligible for UI
TOTAL – Left job in prior 6 months	57.4%
Length of time in last job:	
Less then 3 months	67.9%
3 to 6 months	58.9%
6 months to 1 year	55.0%
More than one year	49.4%

Source: University of Baltimore, Center for Business & Economic Studies

TABLE 5

AFDC APPLICANTS' AVERAGE WAGE AND ELIGIBILITY FOR UNEMPLOYMENT INSURANCE (UI)

	% of Applicants Not Eligible for UI
TOTAL – Left job in prior 6 months	57.4%
Average hourly wage:	
Less than $4	71.4%
$4 – $5	63.3%
$5 – $6	47.6%
$6 – $7	47.8%
More than $10	NA

Source: University of Baltimore, Center for Business & Economic Studies

TABLE 6

AFDC APPLICANTS' HOURS WORKED AND ELIGIBILITY FOR UNEMPLOYMENT INSURANCE (UI)

	% of Applicants Not Eligible for UI
TOTAL – Left job in prior 6 months	57.4%
Average weekly hours worked:	
35 or more	55.6%
20 to 34	56.9%
Less than 20	70.4%

Source: University of Baltimore, Center for Business & Economic Studies

TABLE 7

AFDC APPLICANTS' PREVIOUS EMPLOYMENT BY SECTOR AND ELIGIBILITY FOR UNEMPLOYMENT INSURANCE (UI)

	% of Applicants Not Eligible for UI
TOTAL – Left job in prior 6 months	57.4%
Sector of Employment:	
Services	62.7%
Retail/wholesale	53.3%
Hotel/restaurant	71.8%
Health	63.2%
Finance/insurance/real estate	64.3%
Business	50.0%
Personal	70.0%
Misc.	66.7%
Manufacturing	50.0%
Construction	16.7%
Government	35.7%

Source: University of Baltimore, Center for Business & Economic Studies

TABLE 8

AFDC APPLICANTS' OCCUPATIONS AND ELIGIBILITY FOR UNEMPLOYMENT INSURANCE (UI)

	% of Applicants Not Eligible for UI
TOTAL – Left job in prior 6 months	57.4%
Occupation:	
Clerical	50.0%
Hotel/restaurant	73.1%
Health related	58.8%
Sales	50.0%
Factory	57.9%
Manager/professional	61.1%
Janitor/cleaning	76.9%
Construction/laborer	36.4%
Other	55.9%

Source: University of Baltimore, Center for Business & Economic Studies

Acting Chairman DOWNEY. Thank you, Mr. Conte.
Mr. Shapiro.

STATEMENT OF ISAAC SHAPIRO, SENIOR RESEARCH ANALYST, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. SHAPIRO. Thank you, Mr. Chairman.

There's been much talk about a moderate recession occurring in the United States today. What I would like to suggest is that even if that recession does prove to be moderate, the problem of unemployment and of long-term unemployment, in particular, is quite serious. The number of long-term unemployed has already jumped dramatically as a result of the recession, rising at a more rapid rate than the overall number of unemployed.

Since June 1990, the number of long-term unemployed workers rose by nearly one-third; moreover, in the last recession, long-term unemployment did not peak until 6 months after the recession ended. If this pattern repeats itself, and even if the recession proves to be moderate and ends in midsummer, the problem of long-term unemployment will continue to increase for another year.

This leads to a more general point. Even after a recession officially ends, it can take several years before unemployment returns to its prerecession levels. The Bush administration's economic forecast predicts the recession will be moderate, but it, nevertheless, foresees an extended period of high unemployment. Under the administration's forecast, the average unemployment rate in fiscal

year 1992 will equal 6.7 percent or slightly higher than the average in fiscal year 1991. In short, even if the recession proves to be moderate, the problem of high unemployment is likely to persist for a period far beyond this summer. The need for strengthening the UI system is not simply a short-run phenomenon.

Cutbacks to the EB program have been described by other witnesses throughout these hearings, so let me just underscore their importance by noting the upswing in the number of people who have exhausted their State UI benefits and who, therefore, are potentially in need of extended benefits. The number of State benefit exhaustees rose by 19 percent from 1989 to 1990, with 2.3 million State UI recipients exhausting their benefits last year. Only a tiny fraction of these exhaustees were then eligible to receive Federal extended benefits.

In December 1990, a month when not a single State was eligible for extended benefits, 190,000 individuals exhausted their State UI benefits. This reflected a 26-percent jump compared to December 1989.

When unemployed workers do not receive assistance from the safety net program theoretically designed to meet their needs, they may have no choice but to rely on other parts of the safety net. This raises three concerns.

The first concern is that these other programs are not designed to help workers experiencing temporary spells of unemployment. UI fails, as an insurance system, when moderate-to-middle-income families who are not aided under the program must be driven into poverty before they can get aid from the Government under means-tested programs.

A second concern is that since these other programs are not tailored to the needs of the temporarily unemployed they often are ill-fitting. For instance, while the UI program has no asset limits, programs such as AFDC and food stamps have stringent limits on the amount of assets that a household can possess and still be eligible for assistance. Many of the temporarily unemployed poor are unlikely to meet these limits.

A third concern is that the unemployed cannot rely on other parts of the safety net to make up for inadequate UI protection. Much of the rest of the safety net is also frayed badly. For example, AFDC has been cut sharply in recent decades. In 1990, a family with wages equal to 75 percent of the poverty line could qualify for AFDC benefits in only nine States. In 1980, such a family could qualify for benefits in 42 States. In other words, families must have exceptionally low levels of income today in order to qualify for AFDC.

In most areas, unemployed people who do not receive UI or AFDC benefits cannot expect much help from State or local general assistance programs either. In the majority of States, GA programs are extremely restrictive.

Finally, over the past 10 years, Federal appropriations for employment and training programs fell by more than half in real terms. For many of the unemployed the Government provides neither a net, nor a ladder.

There are some exceptions to this trend. Most notable, there have been some improvements in health insurance coverage for the

unemployed and the poor. On the whole, however, the safety net is in substantially worse shape now than during other recent recessions.

Let's talk a little bit about reforms. The first reform that I would recommend is that Congress should restore the strength of the extended benefits program. Its reforms should include the development of an alternative trigger, as Mr. Corson also recommended. The insured unemployment rate is no longer an accurate reflection of the depth of a State's unemployment problem. As Wayne Vroman has noted, States such as Florida, South Dakota, Texas, and Virginia would have to have a total unemployment rate of 15 percent in order to have a high enough insured unemployment rate to qualify for extended benefits.

While helpful, reforming the extended benefits program suffers from two shortcomings as a recession relief measure. First, since the program's costs are shared equally by the States and the Federal Government, liberalizing the program would impose some fiscal burden on States with high unemployment rates. Some of these States could have difficulty financing these benefits.

A partial response to this situation would be to create a sliding scale for contributions to the program.

The second shortcoming is that changes in Federal EB law are not actually implemented until States make corresponding changes in their own UI laws. In some States, these changes might not be made for several months, if at all. An alternative way of providing UI benefits to the long-term unemployed should be considered. The Federal Government could enact a program of supplemental unemployment benefits that would be fully federally funded. Similar programs, of course, have been enacted in other recent recessions. A Federal supplemental compensation program could provide immediate relief to long-term unemployed workers without placing a further fiscal burden on States facing financial difficulties.

To finance UI reforms in the long run, Congress should consider raising the exceedingly low Federal tax-for-wage-base. In the short run, however, this is not an appropriate solution. To finance UI reforms in the short run, it might be advisable to use the provision in the new budget law allowing the President and Congress to designate a measure as emergency legislation. Indiscriminate use of this provision would undermine the budget agreement. Its use in carefully circumscribed conditions is appropriate, however. If the emergency designation were not invoked for legislation providing supplemental unemployment insurance benefits, the cost of these benefits in this fiscal year would also have to be offset fully by increased tax revenues, or reduced costs in another entitlement program during this fiscal year.

It would be extremely difficult to pass and implement such offsetting measures. Providing FSC benefits during a period of high joblessness results in costs that will diminish sharply or disappear as the unemployment rate returns to normal levels. This is an appropriate use of the emergency provision.

Thank you.

[The prepared statement follows:]

Testimony of Isaac Shapiro
Senior Research Analyst
Center on Budget and Policy Priorities

Thank you for the opportunity to testify on the subject of long-term unemployed workers and the unemployment insurance program. I am a senior research analyst at the Center on Budget and Policy Priorities. The Center is an independent, nonprofit research and analysis organization that focuses on public policy issues affecting low and moderate income Americans.[1]

The Recession's Effects on Long-term Unemployment

Until recently, most economic forecasts predicted the recession would be "moderate" and would end by mid-1991. Due, however, to a discouraging Labor Department report on January unemployment conditions, along with uncertainty over other factors such as the health of the banking system, some economists are now concerned these forecasts may be too optimistic.

Even if the recession does prove to be moderate, its effects will still be substantial and will adversely affect millions of Americans. These effects will be especially severe if steps are not taken to shore up the safety net for the long-term unemployed.

The number of long-term unemployed has already jumped dramatically as a result of the recession, rising at a more rapid rate than the overall number of unemployed.[2] Just between June 1990 and January 1991, the number of long-term unemployed workers — those out of work more than 26 weeks and still looking for a job — rose by 29 percent, or nearly one-third. (See Table 1.)

Table I
Effects of Recession on Unemployment

	June 1990	January 1991	Percentage Increase
Total unemployed	6,560,000	7,715,000	+18%
Unemployed job losers	3,203,000	4,068,000	+27%
Long-term unemployed	659,000	848,000	+29%

The problem of long-term unemployment is likely to worsen for a significant period of time. As John Bregger of the Labor Department recently pointed out in testimony before this Subcommittee, in the last recession, long-term unemployment did not peak until six months *after* the recession ended.[3]

If this pattern repeats itself during this recession, and even if the recession proves to be moderate and ends in mid-summer, the problem of long-term unemployment will continue to rise for another year.

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[1] Much of this testimony is drawn from a just-released Center report, *A Painless Recession: The Economic Downturn and Policy Responses*, which Robert Greenstein and I co-authored. I would also like to thank Marion Nichols and Julie Strawn of the Center for their help in preparing this testimony.

[2] One reason why the unemployment rate — and the number of unemployed — has not risen more during the recession has been stagnant labor force growth. As Janet Norwood, Commissioner of the Bureau of the Labor Statistics, noted in testimony to the Joint Economic Committee on February 1, 1991: "There has been less upward pressure on the unemployment rate so far during this recession than in past downturns because we have had so little labor force growth....Since June, we have had no net labor force growth, and there has been hardly any over the past year."

[3] John E. Bregger, Assistant Commissioner for Current Employment Analysis, Bureau of Labor Statistics, U.S. Department of Labor, Testimony before the Subcommittee on Human Resources of the Committee on Ways and Means, February 6, 1991.

This leads to a more general point about the persistence of unemployment problems that are caused by an economic downturn. There appears to be some misunderstanding about what it means for a recession to "end." The point at which a recession ends is the point at which the economy is at its lowest ebb, not the point at which the economy has fully recovered. A recession is said to "end" when the economy hits bottom, stops contracting, and starts to grow again. Normally, this is when unemployment is highest, and it can take several years before unemployment returns to its pre-recession levels.

For example, the Bush Administration's official economic forecast, which predicts the recession will be moderate and end by mid-year, nevertheless foresees an extended period during which unemployment will remain at high levels.

- Under the Administration's forecast, the average unemployment rate in fiscal year 1992 will be slightly *higher* than the average rate in FY 1991. (The average rate in FY 1992 will be 6.7 percent, according to the forecast; the average rate for FY 1991 will be 6.6 percent.)

- The unemployment rate will not return even to its current level — 6.2 percent in January 1991 — until the second half of 1993.

In short, even if the recession proves to be moderate, the problem of high unemployment in general — and of elevated levels of long-term unemployment in particular — is likely to persist for a period far beyond this summer. This is one reason why the need for strengthening the UI system is not simply a short-run phenomenon.

UI Benefits for the Long-term Unemployed

As has been noted repeatedly during these hearings, the unemployment insurance program, generally regarded as the "first line of defense" during a recession, has provided much less assistance to the unemployed in the 1980s than in previous decades. (See Appendix A.)

One component of the UI system that was slashed most sharply during the 1980s was the extended benefits program for the long-term unemployed. Few states now qualify to pay extended benefits.

- In December 1990, the most recent month for which unemployment data are available for all states, two states had unemployment rates at or above 8 percent. Four more states had unemployment rates exceeding 7 percent. Another 18 states had unemployment rates greater than six percent. None of these states qualified to pay extended benefits.

- By February 1991, after two more months of economic contraction, only a few states with very small populations qualified for extended benefits.

- The insured unemployed rate trigger is not an accurate indicator of a state's unemployment problem. Wayne Vroman of the Urban Institute has estimated the *total* unemployment rate would need to reach 15 percent in some states — Florida, South Dakota, Texas, and

Virginia — before the state would have a high enough *insured* unemployment rate to qualify to pay extended benefits.[4]

It also bears noting that accompanying the surge in long-term unemployment has been an upswing in the number of people who have exhausted their state UI benefits and who, therefore, are potentially in need of extended benefits.

- The number of state benefit exhaustees rose by 19 percent from 1989 to 1990, with 2.3 million state UI recipients exhausting their benefits in 1990. Only a tiny fraction of unemployed workers who exhausted their state benefits in 1990 were then eligible to receive federal extended benefits.

- In December 1990, when no state was eligible for extended benefits, 190,000 individuals exhausted their state UI benefits. This reflected a 26 percent jump in exhaustees compared to December 1989.

UI and Other Parts of the Safety Net

When people who are experiencing a spell of long-term unemployment do not receive assistance from the safety net program theoretically designed to meet their needs, they may have no choice but to rely on other parts of the safety net. Eligibility for these other programs is often means-tested.

It is worthy of note that food stamp claims have risen substantially in recent months. Most food stamp analysts who have examined these numbers have concluded that the increase in food stamp participation has been more rapid than would have been expected given the relationship between food stamp participation and unemployment levels in previous recessions. One food stamp analyst, Robert Greenstein, former Administrator of the Food and Nutrition Service (and currently director of the Center on Budget and Policy Priorities), believes that weaker UI protection during the current downturn may be one of the factors behind this new trend.

Why is it a concern if unemployed workers are turning to other parts of the safety net for help instead of to unemployment insurance? Should it matter where they are receiving assistance from? Three concerns, partially related to each other, come to mind.

One concern is that these other programs are not designed — as the unemployment insurance system is — to help moderate and middle income workers experiencing temporary spells of unemployment. The unemployment program fails as an "insurance" system when moderate and middle income families who are not aided under the program must be driven into poverty before they can get aid from the government under other programs.

A second concern is that since these other programs are not tailored to the needs of the temporarily unemployed, they often are ill-fitting. For instance, while the UI program has no asset limits, programs such as AFDC and food stamps have stringent limits on the amount of assets that a household can possess and be

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[4] Wayne Vroman, Testimony before the Joint Economic Committee, January 4, 1991.

eligible for assistance. Many of the temporary poor are unlikely to meet these limits.[5]

A third concern will be discussed in more detail here. Other parts of the safety net that can provide some help to the unemployed are themselves limited and provide less help today than during past recessions. Many people who are poor and are either unemployed or partially employed are not able to qualify for them. That is, the unemployed cannot rely on other parts of the safety net to make up for inadequate UI protection; much of the rest of the safety net is also frayed badly.

Two other programs, in particular, can provide cash assistance to some unemployed people who are very poor: these are the Aid to Families with Dependent Children program and state or local general assistance programs. The larger of these two programs — AFDC — has itself been cut sharply in recent decades and now provides less assistance than it did in previous recession years.[6]

- In 1990, a single parent family of three with wages equal to 75 percent of the poverty line could qualify for AFDC benefits in only nine states. In 1980, such a family could qualify for benefits in 42 states.[7]

  As a result, families must have extremely low levels of income in order to qualify for AFDC.

- In addition, those families who *do* qualify for benefits will receive much less aid than in the past. In the typical (or median) state, maximum AFDC benefits for a three-person family fell 39 percent from 1970 to 1990, after adjustment for inflation. From 1980 to 1990, these benefits fell 18 percent in real value.[8]

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[5] For example, the Food Stamp Act requires that the amount by which the fair market value of an automobile or other vehicle exceeds $4,500 must be counted as an asset. If this excess amount — plus the household's total liquid assets — exceeds $2,000, the household is ineligible for food stamp assistance. Since the $4,500 vehicle limit applies to market rather than equity value, households that bought a modest car on installments within the past couple of years — but that subsequently lost their jobs — may find themselves ineligible for food stamps even if their equity in the car is relatively small.

These limits are much more restrictive than in past recessions. During the 1974-1975 recession, the Food Stamp Program had no vehicle limit. (The limit was added to the law in 1977). During the 1981-1982 recession, the allowable vehicle limit was $4,500, the same as today, but the fair market value of comparable cars was considerably lower than it is today. As a result, the food stamp assets limits are likely to disqualify a larger proportion of low income, unemployed households during the current recession than during previous recessions of the past two decades.

[6] While AFDC benefit levels have fallen fairly dramatically, the AFDC program for two-parent families was strengthened in 1990. The Family Support Act mandated that all states create a program providing benefits to two-parent families where the principal earner is unemployed. These AFDC-UP programs were to be in place as of October 1, 1990. Prior to that time, 22 states did not have an AFDC-UP program. From December 1989 to December 1990, the AFDC-UP did rise by 44,000 families, or 23 percent. In addition to the new mandate, the recession probably played a role in this increased caseload. (More than half of the states that have new AFDC-UP programs have selected the option to limit the duration of benefits, usually to half of a year.)

[7] AFDC data presented here come from the House Ways and Means Committee, *1990 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means*, June 5, 1990.

[8] A large majority of AFDC families also receive food stamps. The decline in the combined value of AFDC and food stamp benefit levels has been smaller than the decline in AFDC benefits alone, but is still substantial. Between 1972 and 1988, the average AFDC benefit level for a family of four with no other income fell 33 percent, after adjusting for inflation, while the average combined level of AFDC and food stamp benefits for a family of four fell 21 percent.

In most areas, unemployed people who do not receive UI or AFDC benefits cannot expect much help from state or local general assistance programs either.

- In 1989, only 13 states had state programs of general cash assistance for people who are neither elderly nor disabled. State general assistance programs did operate in seven other states, but aid was restricted in these states to elderly or disabled people. County-based general assistance programs operate in a number of other states, but these programs, too, are often limited in scope. And in 13 states, there was either no state or local general or emergency assistance program, or the programs that existed were extremely restrictive in nature.[9]

Finally, not only do government programs provide less cash assistance than in the past to cushion the blow of unemployment, but the government also provides less assistance in helping jobless workers obtain training for or placement into new jobs. From fiscal year 1981 to fiscal year 1991, federal appropriations for employment and training programs fell by more than half — 56 percent — after adjusting for inflation. For many of the unemployed, the government provides neither a net nor a ladder.

One important area in which a major safety net program is stronger now than in past recessions is in health care coverage for pregnant women and young children. Due to legislation enacted in recent years, states are required to provide Medicaid coverage to pregnant women and children through age five whose families have incomes below 133 percent of the poverty line. In addition, on July 1, 1991, most children aged six or seven who live in poor families will also become eligible for Medicaid. If families that lose their jobs and fall into poverty become aware of their eligibility for Medicaid and apply for the program, pregnant women and young children in the family should generally be able to secure health coverage.[10]

One other reform of government health policies may also be of benefit to some laid-off workers. Under the reform, firms employing at least 20 workers and carrying a group insurance plan must offer continued health coverage to workers who are laid off or whose hours are reduced. The employers may require, however, that these workers pay the full costs of the health insurance premiums. Still, the premiums will usually be considerably less expensive than a health insurance plan that is purchased individually.

These improvements in health insurance coverage should prove helpful during the recession. On the whole, however, the safety net is in substantially worse shape than during other recent recessions.

Unemployment and Poverty

For those who receive benefits, the UI program does help shield them from poverty. A recent Congressional Budget Office study examined whether long-

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[9] This Center on Budget and Policy Priorities typology is based on data from *Characteristics of General Assistance Programs 1989*, prepared for the U.S. Department of Health and Human Services by Levin/ICF and James Bell Associates, 1990.

[10] In a small number of states that retain use of assets limits in determining eligibility of low income pregnant women and children for Medicaid, some children in poor, unemployed families will still not be able to qualify for Medicaid.

term UI recipients had monthly income that — if received for the entire year — would enable the recipients' household to escape poverty. It found that the monthly poverty rate equaled 19 percent among long-term UI recipients, but that their poverty rate would have equaled 46 percent if they had not been receiving UI benefits.[11]

The ability of the UI system to shield unemployed workers from poverty is undermined by three factors, however. First, people who exhaust their benefits are much more likely to be poor. The CBO study examined the poverty status of long-term UI recipients who were not working three months after they exhausted their benefits. The study compared this group's poverty rates while they were receiving UI benefits to the period after they received benefits. Their monthly poverty rate was twice as high after they exhausted their benefits.

Second, the unemployed who never qualify for UI benefits to begin with are more likely to be poor. Noted poverty experts Sheldon Danziger and Peter Gottschalk examined the circumstances of workers who were employed at low-wage jobs but then lost their jobs and joined the ranks of the unemployed. They found that most unemployed household heads who had previously held low-wage jobs did not receive unemployment insurance benefits, and that the proportion that did receive benefits had decreased substantially in recent years. Moreover, these jobless workers and their families received little in the way of cash assistance from other programs. As a result, they were "at a high risk of poverty."[12]

Finally, the anti-poverty effectiveness of the UI program has declined for the long-term unemployed. Wayne Vroman has found "It is clear that the long-term unemployed experience very high poverty rates and that UI benefits have a substantial poverty-reducing impact....In the absence of some alternative new program, and given the particularly large amount of long-term unemployment experienced in the 1980s, it seems to be clear that UI benefit cutbacks have contributed to economic hardship and to occurrences of poverty in the 1980s."[13]

Maryland Study

I have not had the opportunity to review the Maryland study. A quick comparison of Maryland to other states, however, suggests that whatever problems the inadequacy of the UI system may be causing in Maryland may be less severe than the problems arising in the rest of the nation.

This conclusion is based on two considerations. First, Maryland is one of the wealthiest states in the nation. Its average family income ranked third highest in the nation in the late 1980s while its poverty rate ranked fourth lowest.[14] In addition, Maryland's unemployment rate is below the national average. In 1990, the state's unemployment rate averaged 4.6 percent, compared to a national average of 5.5 percent.

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[11] Ralph E. Smith and Bruce Vavrichek, the Congressional Budget Office, *Family Incomes of Unemployment Insurance Recipients and the Implications for Extending Benefits*, February 1990.

[12] Sheldon Danziger and Peter Gottschalk, "Unemployment Insurance and the Safety Net for the Unemployed," Prepared for Conference on Unemployment Compensation, University of Wisconsin-Madison, February 1986.

[13] Wayne Vroman, Testimony before the House Committee on Government Operations, Subcommittee on Employment and Housing, May 22, 1986.

[14] Jon D. Haveman, Sheldon Danziger, and Robert D. Plotnick, "Poverty Rates by State in the late 1980s," *FOCUS*, forthcoming.

Second, the strength of Maryland's safety net is slightly above average (although not as strong, relative to other states, as its level of wealth would allow). For example, unemployment insurance protection ranks in the middle of the pack while AFDC benefit levels are somewhat above the level in the typical state.

Since there is less deprivation in Maryland than in most other states, and since its safety net is slightly above average, it can be expected that any strains the recession is causing for Maryland's safety net — and the hardships subsequently created — are likely to be even greater in the majority of other states.

Reforms to the Unemployment Insurance System

Congress should restore the strength of the extended benefits program for the long-term unemployed. Its reforms should include the development of an alternative trigger; the insured unemployment rate is no longer an accurate reflection of the depth of a state's unemployment problem.

While modifications in the extended benefits program could assist jobless workers in states where unemployment is high, reforming the extended benefits program would suffer from two shortcomings as a recession-relief measure. First, since the program's costs are shared equally by the states and the federal government, liberalizing the program would impose some fiscal burden on states that would qualify to provide extended benefits as a result. Since these would be states with high unemployment rates, some of them could have difficulty financing these benefits. A partial response to this situation would be to create a sliding scale under which states with especially high unemployment rates would have to contribute less than half the costs for extended benefits, with the federal government paying more than half.

The second shortcoming also stems from the dual federal and state fiscal responsibility for the extended benefits program. Changes in federal law that make it easier for states to qualify for the extended benefits program are not actually implemented until states make corresponding changes in their own UI laws. As a consequence, federal liberalization of the extended benefits program would not have an instantaneous effect. It would take effect only as states enacted legislation incorporating the changes. In some states, these changes might not be made for several months, if at all.

These shortcomings suggest that an alternative way of providing UI relief should also be considered: the federal government could enact a program of supplemental unemployment benefits that would be fully federally funded — and would be provided to long-term unemployed workers who have exhausted their regular (or extended) UI benefits and are still looking for work. Enacting a temporary program along these lines would not be an unusual step. Precisely such a program — called the "Federal Supplemental Compensation" program — was in place from the fall of 1982 to the spring of 1985. The program remained in effect until well after the recovery began because unemployment rates remained high in many areas of the country. Similar programs have been enacted in other recent recessions.

Some type of federal supplemental compensation program could provide immediate relief to long-term unemployed workers who have exhausted their UI benefits — and could do so without placing a further fiscal burden on states

facing financial difficulties. A permanent FSC program might be preferable to the extended benefits program.

Financing UI Reforms

To finance UI reforms in future fiscal years, the Congress should give serious consideration to raising the wage base on which the unemployment insurance tax is levied. Currently, the federal UI tax of 0.8 percent applies only to the first $7,000 of a worker's wages; the taxable wage base has been raised only three times from its initial level of $3,000 in 1935. In comparison, the Social Security maximum tax base (which equaled $53,400 in 1991) is more than seven times as high as the current UI maximum tax base.

As a consequence of this tax structure, an employer pays the same amount of federal UI taxes for an employee earning $7,000 as for an employee earning $50,000 or $100,000. Yet, the worker at a higher wage level gets larger UI benefits if he or she loses a job.[15] This tax and benefit structure serves to discriminate against low wage workers with earnings at or near the wage base.

To finance UI reforms for this fiscal year, it might be advisable to use the provision in the new budget law allowing the President and Congress to designate a measure as emergency legislation. Indiscriminate use of this provision would undermine the budget agreement. Its use in carefully circumscribed conditions is appropriate, however.

If the emergency designation were not invoked for legislation providing supplemental unemployment insurance benefits, the costs of these benefits *in fiscal year 1991* would have to be offset fully by increased tax revenues or reduced costs in another entitlement program *during fiscal year 1991*. Fiscal year 1991 is nearly half over. It would be extremely difficult to pass and implement a tax increase or a cut in benefits in another entitlement program in time to realize sufficient savings during the current fiscal year.

Moreover, providing supplemental unemployment benefits during a period of high joblessness results in costs that will diminish sharply or disappear as the unemployment rate returns to normal levels. A strong case can be made that the emergency provisions of the new budget law should not be invoked to make statutory changes that will result in substantial costs even after unemployment levels are back to normal. But if it proves infeasible (or it is otherwise politically impossible) to offset fully the costs that would be incurred during high unemployment periods for measures needed to keep unemployed workers and their families from falling into poverty, becoming homeless, or going without food or health care, use of the emergency designation appears appropriate.

In such circumstances, use of the emergency designation may also represent a prudent "middle course." The new budget law provides that during each quarter of a recession, the Senate must (and the House may) vote on a resolution to waive all budget ceilings and deficit control provisions for the current and the succeeding fiscal year. Passage of such a resolution would likely cause the deficit accord to crumble. That could lead to fears of sharply higher deficits, with the result that the financial markets might react with distress, causing interest rates to rise. Higher interest rates are the last thing the economy needs during a recession. Maintaining the spending ceilings and other budget rules, but granting an emergency designation in limited circumstances may represent a prudent middle course.

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[15] State UI benefits are financed through state taxes. Currently, the federal taxable wage base sets a floor under which the state base cannot drop. In the typical state, the taxable wage base equaled $8,000 in 1990, a level just slightly above the federal base.

Appendix A. UI Protection at Historic Low

Due to policy cutbacks at both the federal and state levels and to other factors as well, the nation entered the current recession with a weaker unemployment insurance program than at any other point in at least 35 years.

- In five of the past seven years, the proportion of the unemployed receiving unemployment benefits in an average month set a record low. From 1984 to 1989, this proportion was at or below 34 percent every year.

- Prior to 1984, by contrast, the percentage of unemployed workers receiving unemployment benefits fell below 40 percent only once — in 1966, when the rate was 39 percent. (These data are available back to 1955.)

- The proportion of the unemployed receiving benefits did edge up slightly in 1990, to 37 percent. This was not due to changes in UI laws, however, but rather to other factors such as the fact that this proportion always rises during a recessionary period. Indeed, the 37 percent UI receipt rate is itself a record low for a year in which a recession has occurred.

Percentage of Unemployed Receiving UI Benefits

Source: Center on Budget and Policy Priorities and U.S. Department of Labor.

Acting Chairman DOWNEY. Thank you, Mr. Shapiro.

Mr. Corson, in your study of workers who have run out of regular State benefits during a period of low unemployment, did you find that 60 percent were still unemployed after 10 weeks?

Mr. CORSON. Yes.

Acting Chairman DOWNEY. What does that tell us about the labor market experience of these long-term unemployed workers?

Mr. CORSON. You mean currently?

Acting Chairman DOWNEY. Yes.

Mr. CORSON. I would imagine it would go up; that number would be higher.

Acting Chairman DOWNEY. You also suggested changing the trigger for the insured unemployment rate or maybe just doing away with the insured unemployment rate and I think that's what Mr. Shapiro was suggesting. Would it be fair to say that this way of cal-

culating whether people should receive extended benefits has out lived its usefulness, if it was ever useful?

Mr. CORSON. I think so. One argument for using it is that it reflects the differences among State programs. But I think those differences are so great now that it is time to change to a different trigger.

Acting Chairman DOWNEY. Let me ask you about the differences in State programs for a minute. Should we be concerned that it appears as though some States are actively interested in providing the smallest amount of benefits that they can; the lowest tax rates; the most restrictive programs; and that other States are more generous? Should we be looking to make this more of a national program than one that is done State-by-State?

Mr. CORSON. Well, the program has always been a State program. And many of the differences in State programs reflect differences in the economies across States.

Acting Chairman DOWNEY. Right.

Mr. CORSON. Changing it to a Federal program would be a major step and I think something that would need to be looked at fairly carefully.

Acting Chairman DOWNEY. OK. I come from New York. The New York Metropolitan area really includes New York and New Jersey and Connecticut. And all of us who live in the northeast are dependent on exports, and to a certain extent, the service economy. While the labor market of New York is different from New Jersey, it is not that radically different from New Jersey. Maybe it is very different from Texas.

Aren't there ways, for instance, that we could say that for extended benefits, for instance, that if the rate of unemployment in the State is, let's say, 6 percent, that we would allow the States some flexibility to determine who is eligible for the first 26, and then we would say, at a 6 or 7 percent rate, we would then trigger-on extended benefits.

Do you think it would be a fair fix in the system to base extended benefits on the overall State's unemployment rate as opposed to the insured unemployment rate?

Mr. CORSON. Yes.

Acting Chairman DOWNEY. What figure would you use as a threshold? Would you use 5 or 6 percent for extended benefits?

Mr. CORSON. Well, I was thinking something like 8 percent might be an appropriate point. I think that a figure at about 8 percent would put us back to the way the program was, say, in the 1970s.

Acting Chairman DOWNEY. But how many tiers of benefits would you recommend? You said that extending it for short periods of time—2 and 3 weeks—did not make sense.

Mr. CORSON. Yes. I think I would have two-to-three tiers at the most.

Acting Chairman DOWNEY. And how many weeks of benefits would you have in the tiers?

Mr. CORSON. Perhaps 10 in each tier.

Acting Chairman DOWNEY. Ten in each, so that conceivably you could have, if unemployment were at 11 or 12 percent in the State, somebody would be eligible for the first 26 weeks of unemployment

and then maybe an additional 30 weeks, based on extended benefits?

Mr. CORSON. Well, I was thinking that you might have a program with 10 weeks at 8 percent, and another 10 weeks at 11. And whether you would want to go higher than that, I don't know.

Acting Chairman DOWNEY. Mr. Shapiro, could you enlighten us on this Federal/State arrangement program? I want to be sensitive to the fact that Iowa, Connecticut, New York, Wisconsin, and Michigan are all represented in this room at the present moment and the State of Washington, excuse me. They may be very different work places, but it strikes me as a somewhat fanciful notion that in an economy as fully integrated into the global economy as we are that we still seem so reluctant to say that unemployed workers are not solely citizens of the State of Connecticut or New York, but they are citizens of the entire Nation.

Mr. SHAPIRO. I think that I would divide that question into two. First, under the regular State program, I would agree that some Federal standards, not a Federal program, but some Federal standards would be appropriate as well. When you have unemployment insurance recipiency rates varying so dramatically between the different States, I think that is a cause for concern.

As far as the extended benefits program, I would actually be in favor of federalizing the system to the extent that you mention that it is an international economy. And when you are in a recession that tends to be driven by the national economy as affected by the international economy, it is not something that a State can control.

So it seems if the unemployment rate is, I would say, 6 or 7 percent in a State it makes sense to have a Federal system stepping in to provide that unemployed person with benefits.

Acting Chairman DOWNEY. Let me ask you the same questions that I asked Mr. Corson. He had a higher rate at 8 percent than I would like to see for extended benefits. Can you give us a figure that you would find useful?

Mr. SHAPIRO. I would agree with Mr. Corson that it probably doesn't make sense to have too many tiers and that three tiers is a sensible approach. But I think 11 percent, in particular, that is an astronomical amount of unemployment in a State. I think 8 percent, as well, is quite high. I might recommend a program, just off the top of my head, which might have the first tier at 7 percent, perhaps a little bit lower; the second tier at 8.5 percent; and maybe the third tier at 10 percent.

Acting Chairman DOWNEY. I would observe as of December 1990, there were only three States at 8 percent—Mississippi, West Virginia, and Puerto Rico; one at 8, one at 9.5, and the other at 14.2, respectively.

Mr. Conte, let me ask you a question about your table VI in your report about persons who left a job in the prior 6 months and the percentage who were not eligible for unemployment insurance. Do you think that this suggests that the growing numbers of part-time workers in our economy have been cut out of the unemployment insurance system?

Mr. CONTE. Well, it is clearly the case that those who worked part-time as defined by less than 20 hours per week, appeared to be

largely ineligible—70.4 percent of them claim to be ineligible. Unfortunately there is no way of comparing this with, say, 10 years ago.

Acting Chairman DOWNEY. Yes, I understand.

Mr. CONTE. So that's why I hesitate to give a complete answer on the basis of this.

Acting Chairman DOWNEY. Do you think it is a trend on the part of employers to hire contract workers or part-time workers to avoid paying fringe benefits?

Mr. CONTE. There are studies that I am aware of that have shown that there has been a change in the structure of interfirm relations, let's put it that way. A work, in particular, by, I believe, Katherine Abraham, at the University of Maryland and others—has indicated that there's a lot more contracting out, a lot more self-employed, in particular in the janitorial, and other areas, who would not be covered, and independent contractors to janitorial services, just as an example. The reason that I raise that is that there was something that I did not get a chance to note in the testimony; namely, that those occupations—janitorial and other service workers, were even higher than that figure, even for full-time employees. So that would tend to support your implied assertion in your question.

Acting Chairman DOWNEY. You stated in your testimony something that I found very interesting. You said that increases in AFDC caseloads in the State of Maryland were leading indicators of recession.

Mr. CONTE. Yes.

Acting Chairman DOWNEY. Can you reexplain this for me? Even as the recession deepens and people use up whatever unemployment insurance they have, do they then go on public assistance? Were they doing that when public assistance increased? Is the caseload increase also attributable to losses of unemployment insurance?

Mr. CONTE. We did not have a chance to look at that. The relationship that we looked at was the extent to which individuals who were applying for AFDC, that is at the front end, had considered applying for UI and/or had found themselves to be eligible or in their judgment would be eligible.

Acting Chairman DOWNEY. Let me ask you one more question about table VI. It says, AFDC Applicants' Hours Worked and Eligibility for Unemployment Insurance, percentage of applicants not eligible. Was that based on a survey? Did they think they were not eligible?

Mr. CONTE. Yes, yes.

Acting Chairman DOWNEY. So it is conceivable that some of these people were eligible but just didn't apply? Do you know how many?

Mr. CONTE. Well, very briefly, when you apply for AFDC in Maryland, you are required to be subjected to a battery of questions by an expert administrator in the AFDC system who, nonetheless, has familiarity with the UI system. And who, if you, indeed, on the surface appear to be eligible for UI will send you there.

Acting Chairman DOWNEY. So, is there at least a check in Maryland to make sure that one type of benefit is exhausted before you apply for the other?

Mr. CONTE. Yes.

Acting Chairman DOWNEY. OK.

Mrs. Johnson.

Mrs. JOHNSON. Sometimes it is hard to follow a subject like this in quite as much detail as one would like to. So I am going to ask a question that may sound stupid, but anyway——

Acting Chairman DOWNEY. There are no stupid questions.

Mrs. JOHNSON. When I was first elected, there was unemployment in my district of 16 to 20 percent. It was a terrible, terrible time. When unemployment fell to 6 percent, people began saying, Well, 6 percent in today's world is almost like zero. I never quite understood it. When unemployment fell to 3 percent, indeed, it felt like zero. I mean, there was no one to hire. Shops in my district could not expand, orders had to be turned away, stores could not open because owners could not get anyone to work for them. Then I began to say, Oh, well, OK, maybe 6 percent unemployment isn't as dire as I thought it was; maybe the economy behaves at 6 percent the way I thought it should behave at 3 percent.

Has there been some change in how you articulate unemployment rates so that the 6 percent level of unemployment that you are talking about now describes different economic conditions than the 6 percent level of the mid-1980s? If we are talking about the same conditions, why do you perceive the impact of 6 percent unemployment differently now than people seemed to perceive it 5 or 6 years ago?

In previous hearings, we talked about unemployed people that are not even counted in the insured population. That growing pool concerns me. Other issues, such as the resources that are available to the unemployed are significant. However, first we need a better understanding of the pool of people the unemployment system does not even reach.

I do not have a clear picture of what demographic technology is actually being used to describe it.

Mr. SHAPIRO. I think in terms of the percent that is really zero unemployment it might be 3 or 4 percent. That is because people are always changing jobs or leaving jobs or whatever, so that there is always some friction in the labor market. Now there was some discussion in the mid-1980s that the natural rate of unemployment was somewhere around 6 percent and that is probably what you picked up.

Now, after the national unemployment rate dropped down to about 5 percent, people thought about that again, and they thought, well, maybe that's a little high and maybe we should go back to what once was considered the natural rate of unemployment, which was about 4 percent, which was the 1960s figure.

I suspect that any time you have an unemployment rate above say, 4 or 4.5 percent, it is beyond a case of people simply changing jobs. It's a problem of people not being able to find jobs who want jobs.

But the other point I would make is that something has changed in this labor market that actually results in the unemployment

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Mr. SHAPIRO. I think in terms of the percent that is really zero unemployment it might be 3 or 4 percent. That is because people are always changing jobs or leaving jobs or whatever, so that there is always some friction in the labor market. Now there was some discussion in the mid-1980s that the natural rate of unemployment was somewhere around 6 percent and that is probably what you picked up.

Now, after the national unemployment rate dropped down to about 5 percent, people thought about that again, and they thought, well, maybe that's a little high and maybe we should go back to what once was considered the natural rate of unemployment, which was about 4 percent, which was the 1960s figure.

I suspect that any time you have an unemployment rate above say, 4 or 4.5 percent, it is beyond a case of people simply changing jobs. It's a problem of people not being able to find jobs who want jobs.

But the other point I would make is that something has changed in this labor market that actually results in the unemployment

rate being understated: There has been exceptionally slow labor force growth over the past couple of years. In recent testimony before the Joint Economic Committee, Janet Norwood, the Commissioner of the Bureau of Labor Statistics, noted that if the labor force growth from January 1990 to January 1991 had proceeded at a more normal rate, the unemployment rate would be much higher. In fact, I've calculated that if it had matched the labor force growth from January 1989 to January 1990, you would have an unemployment rate of about 7 percent.

The reason the unemployment rate has not jumped more during this recession has been because of the stagnant labor force growth. New workers are not entering into the economy because they know they are not able to find jobs and you have more discouraged workers who have given up hope.

Mrs. JOHNSON. Is the problem that more workers are discouraged workers or is it that the baby boom is over and there are simply fewer people.

Mr. SHAPIRO. That's part of it, but that's not all of it.

Mrs. JOHNSON. But do you know what part's what?

Mr. SHAPIRO. I can't isolate that.

Mrs. JOHNSON. Does anyone know what part's what?

[No response.]

Mrs. JOHNSON. OK. I am just curious. I am trying to define the problem. This has been a helpful start, but eventually I do need to integrate what you said with my real concern about the people who are not even applying for unemployment insurance, what we know about them and why we are not able to reach them.

So, thank you, Mr. Chairman.

Acting Chairman DOWNEY. Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman.

Mr. Corson, I don't want to spend a lot of time on the details or the mechanism, because I don't think that is the exact problem. But you are suggesting that the trigger mechanism be placed at what level?

Mr. CORSON. I said 8 percent, I was not prepared to give an answer. I mean I had not done a detailed analysis of that question.

Mr. LEVIN. And that is when the IUR was at 8 percent?

Mr. CORSON. No, the TUR.

Mr. LEVIN. The TUR. If it were at 8 percent, what would be the impact today? What States would trigger-on?

Acting Chairman DOWNEY. Three.

Mr. CORSON. Mr. Downey said three would.

Mr. LEVIN. I just want to be—what are you saying?

Mr. CORSON. I don't have those figures.

Mr. LEVIN. Because I think that's correct more or less. But let me just ask you then. I don't understand that answer. I want to read back to you your conclusions. And I don't mean to pick on you but I think that it gets at the issue here. In your summary, you say that from a recent study, it indicates that many exhaustees continue to be unemployed for long periods following the exhaustion of benefits. And this finding suggests that it is sensible to extend the duration of UI benefits during periods of high unemployment to alleviate the financial hardships imposed on the long-term unem-

ployed. It also suggests that the disincentive effects associated with such extensions are likely to be mild.

Now, let's forget about IURs and TURs and the percentage points and all of that for just a minute. And let me just ask you this, and the others can comment. And by the way, I was on an unemployment line on Friday, talking to people, and I think just talking to 10 or 15 people there substantiates what you are finding.

What's the sense of a system that doesn't pay extended benefits to most of the people who are on extended unemployment?

Mr. CORSON. Well, historically the unemployment insurance system has set a limit on the duration of———

Mr. LEVIN. Well, forget about historic. Let's talk about concept. In view of your findings, what sense does it make if the disincentive factor is small and if there are financial hardships that would be alleviated, what sense does it make to have a system that doesn't affect most of those on extended layoff?

Mr. CORSON. I think that the findings suggest that it makes sense to extend benefits, as I said.

Mr. LEVIN. Well, then it seems to me again, the answer is—again forgetting about the details—the answer to Mr. Downey's question should be not such and such a percent, but a system that covers most of those who are in an extended layoff category, no?

Well, your answer, would the present system catch almost nobody. I mean today the extended unemployed are uncovered by unemployment, right?

Mr. CORSON. That's correct.

Mr. LEVIN. Then let me ask the three of you this. Why in the world are we in this situation? Mr. Shapiro, I mean I don't—in view of your research, Mr. Corson, I don't understand. It isn't our inability to devise a trigger mechanism, right? We know how to devise trigger mechanisms in this country. It isn't the lack of brains, right? We have computers and other things that can devise, if we can't, trigger mechanisms. What's going on here?

Mr. CONTE. I think one of the issues is changes over time and differences across regions of the country. We have experienced, since 1980, very different recessionary patterns in different parts of the country. It seems that, for example, whenever I move to a region, that region goes into recession. [Laughter.]

Mr. CONTE. I moved to Louisiana from New Hampshire about 5 years ago and I moved to this area a year and a half ago.

Mr. LEVIN. But they can't be regions, because we have a system that at least treats regions equally, none are ever covered.

Mr. CONTE. Right. [Laughter.]

Mr. CONTE. But the point I am trying to make is that it is very difficult to deal with different regions that are being differently affected at different points in time, for different reasons.

Mr. LEVIN. Why is that?

Mr. CONTE. Simply because the changes that are occurring vary both across regions and over time. We have a changing structure in the economy so that at one point in time, as was indicated previously, it was thought that 4 percent was the full employment rate of unemployment and now the number has been said to be as high as 8 percent. I suspect that it is falling again. So it's, I think, ex-

tremely difficult to make comparisons across time and across regions for those regions.

Mr. LEVIN. Now, Mr. Corson's research shows that there would be no major disincentive from an extended benefit program. I don't see what that has to do with regions. I mean the red light is on but for the life of me if there is no major disincentive—and I am worried about that factor, but assuming that we take care of that—what does it have to do with anything if the unemployment is in Silicon Valley, or Route 128, or the industrial heartland, or the apparel industry? What's the relevance of geography?

Mr. CONTE. I was addressing my remarks to the determination of an appropriate trigger rate and an understanding of what is the full employment rate of unemployment, not to that particular issue.

Mr. LEVIN. Mr. Shapiro, you have 30 seconds before the—Mr. Moody says he will yield some time to you.

Mr. SHAPIRO. Thank you.

Changes in the regional distribution of unemployment as well as in the industrial composition of unemployment are part of the answer. But a large part of the answer has to do with changes in Federal and State policies. There were substantial cutbacks at both the Federal and State level in the early 1980s to the unemployment insurance system. In a global way what that reflected was a new view of the unemployed that was pushed forward at the top parts of the administration. That view in very bald terms, was that perhaps these folks don't need help. All they have to do is to go out on their own and look for a job. That attitude, unfortunately, has permeated many policy decisions in the 1980s. Hopefully, in the next couple of years, we will see that attitude shifting.

Mr. LEVIN. Thank you, Mr. Chairman.

Acting Chairman DOWNEY. Mr. Grandy.

Mr. GRANDY. Thank you, Mr. Chairman.

I would just like to know, do you gentlemen all have a rough idea of how many weeks we should be paying unemployment benefits? Is 26 weeks a proper figure? Should that be extended? Rather than talking about switching the trigger mechanism, should we be changing the duration of the basic program? Is there perhaps a need to expand or contract the amount of basic benefits as opposed to the extended benefits? What has been the mean unemployment figure the last 10 years? Has it been around 6 percent or has it been less, would you gather?

Mr. SHAPIRO. It would be around 7 percent.

Mr. GRANDY. It would be around 7 percent for the last 10 years, and 10 years prior to that it would have been a higher number would it not?

Mr. SHAPIRO. It would have been a lower number in the 1970s. Much lower in the 1960s.

Mr. GRANDY. All right.

Does that argue then for a longer basic unemployment period? I am just asking you to speculate on this. I mean I see a number of 26 weeks, then you get extended benefits and you go for another 13. How did we arrive at that schedule of benefits? What does that number mean?

Mr. CORSON. The unemployment insurance program when it was established in 1935 had much shorter durations. In the 1950s most States moved to 26 weeks as they found that they had sufficient funds to do that. I think the duration of UI is driven by financing considerations. Most States have been at 26 since the early 1950s.

Mr. SHAPIRO. If I may add just one thing, although I can't answer that question specifically. State UI benefits are not always 26 weeks; that's the maximum figure. If you have employment and earnings that are less than those that meet the maximum standards you might get only 10 weeks in some States. So the State unemployment insurance duration does vary depending upon your employment history.

Mr. CORSON. There are States that have paid more than 26 weeks. There are two right now that pay 30 weeks.

Mr. GRANDY. I am sorry, how much do they pay?

Mr. CORSON. Thirty weeks of benefits.

Mr. GRANDY. And what States are those?

Mr. CORSON. Massachusetts and Washington.

Mr. GRANDY. All right.

Now, talking about this triggering again, Mr. Shapiro, you talked about establishing a sliding scale under which States with especially high unemployment rates would have to contribute less than half the cost for the extended benefits. The Federal Government would then kick in more than half. So let me see if I follow this.

If you have a State with historically high unemployment rates, then rather than a 50–50 Federal/State match, it might be 65-Federal to 35-State, is that correct?

Mr. SHAPIRO. That's correct, with the idea that the State with a higher unemployment rate is in less of a position to finance the extended benefits.

Mr. GRANDY. But looking at that another way, wouldn't a State with a higher unemployment rate expect a larger Federal subsidy for extended benefits. I mean I am trying to figure out how to make the burden of proof a little greater on the States to reduce their unemployment. I think your formula would work better the other way, as if the State had to pay more to trigger extended benefits knowing that the Federal payment would be less. States would then have incentives to concentrate perhaps more of their resources on reducing the level of unemployment whether it is through the employment services, or through job training or whatever. The one thing I am trying to get away from here which I seem to find implicitly in this last statement is that if you subsidize unemployment are you not going to get more of it?

That's my concern. Granted that there is a need and sometimes it is peculiar to a specific area and that may be true year-in-and-year-out. But you don't necessarily want to reward States for high unemployment. Do you see what I'm saying here?

Mr. SHAPIRO. I understand your argument in terms of a potentially perverse incentive, but I don't think the incentive would be perverse and here is the reason why, actually two reasons.

The first reason, we are talking about the extended benefits program and so we are talking about this program triggering on typically during a recessionary period, when it is outside of the control of a State that its unemployment rate is rising.

The second reason why I don't think that the potentially perverse incentive would be a controlling factor is that the costs of unemployment and of high unemployment to a State would dwarf any additional savings that they would get because they would have to contribute less to the extended benefits funds.

So the overwhelming costs of the high unemployment would dwarf, let's say, the $15 million or the $5 million or whatever they would save by a different formula.

Mr. GRANDY. Thank you, Mr. Chairman.

Acting Chairman DOWNEY. Thank you.

Mr. Moody.

Mr. MOODY. Thank you, Mr. Chairman.

I guess I would like to pick up on what my colleague was driving at. Mr. Corson, in your testimony you say that 75 percent of the workers have exhausted UI benefits for the jobless 4 weeks after receiving their final UI payment and 60 percent are jobless after receiving their final payment.

That seems to indicate that the perverse incentives—I guess I am picking up on Mr. Grandy's point too—the perverse incentives are rather weak, the perverse incentives. That is the dilution of the intensity of finding a job based on having a check. It does not reduce the incentive to go out and find a job.

Mr. CORSON. That's my interpretation of those numbers.

Mr. MOODY. Right, so that with relatively minor work disincentives then we really should try and judge the extended benefits program almost entirely on income security grounds, as opposed to what it might do to the labor participation?

Mr. CORSON. Yes.

Mr. MOODY. OK.

If that's so, should we look at the whole extended benefits program as a welfare program or as kind of an insurance program? Should we forget the insurance analogy here, and just worry about protecting family incomes?

Mr. CORSON. I think the extended benefit programs have an important role to play in doing that. If you wanted to go in that direction you would be talking about means testing for extended benefits.

Mr. MOODY. That's what I am driving at. Does it make any sense to say, look, we should get away from the purely insurance paradigm, because there doesn't seem to be much feedback effect on the labor force participation. We really want to protect family income because of the children and so forth. And so, therefore, we should start looking at it that way. Does that make any sense or does that take us in the wrong direction?

Mr. CORSON. I think that you also want to consider that during a recession unemployment durations lengthen, so that to maintain equal insurance during recessionary and nonrecessionary periods, you would want to extend benefits for that reason as well.

Mr. MOODY. I am sorry, for recession and nonrecession you would want to retain it, right. But that is really a logical outcome of what I'm saying. In other words, if an individual has long-term unemployment, even in a period of low unemployment generally in his region or his State, we should have just as much stake in protect-

ing that family's income in a humanitarian or income protection sense. It just follows exactly from that, the logic of that.

Which leads me to my final question to you and others, I hope will join in. Is there any logical nexus between the unemployment rate of the region or the State and income circumstances of that family? And if income circumstances of that family is what we are trying to protect, should we decouple the program in some future sense, after we have had a chance to analyze all of this? Decouple it from the general unemployment rate which has nothing to do with that family?

Mr. CORSON. I think you would want to do that if you went to a system of means testing. If you said, at some point, unemployment insurance is the inappropriate program and we want to switch to a means tested program.

Mr. MOODY. I mean extended unemployment, not short term.

Mr. CORSON. Yes.

Mr. MOODY. I guess the way to sum up my question to all three of you and I hope you will all jump on this, is there a logic to say, let's treat extended unemployment as an income problem and not as an employment problem; and let's change our thinking and stop coupling it to the region's unemployment problem? Let's shift the focus to protecting family income, particularly where there are children involved, and get away from turning it on and off like a light switch depending on what is happening to other people?

Mr. CORSON. I think there is logic to that, and one might expect the current welfare system to play that role, but it does not.

Mr. MOODY. It does not. Since it does not, could you answer, the other two gentlemen?

Mr. CONTE. I would like to share simply some observations. Although I didn't conduct this analysis, nonetheless, I think that it is important to keep in mind that the observation that there was a slight-only disincentive effect to participation in extended benefits, was discovered in the context of a program that has a particular design to it; namely, a design to discourage perverse behaviors.

So it very well may be that in the context of a different program one might observe disincentives associated with a UI program. So that would simply be a reviewer's, in a sense, comment on that finding. And it would seem also that there are substantial differences between an insurance program and an income maintenance program. One of their results that we discovered was that the income maintenance program in Maryland seems to operate in lieu of an insurance program.

I think that implies that there is a problem. I am not sure with which program it is. It does imply to me that there is more of a problem on the UI side, but not so much in terms of extended benefits, but in terms of the basic coverage issue.

Mr. MOODY. Thank you, Mr. Chairman.

Could the third gentleman have a second or two?

Mr. SHAPIRO. I think the conceptual distinction is interesting, that you have the regular program that functions as a pure insurance program and then once you are beyond that, you are sort of in a different category. I think that's a useful way to think about it. It is also a useful way to think about it in terms of whether or not it

is appropriate to tie reemployment efforts and training efforts to the second category of assistance.

Mr. MOODY. You are sort of in the hybrid when you are in that second category.

Thank you, very much.

Acting Chairman DOWNEY. Dr. McDermott.

Mr. MCDERMOTT. Thank you, very much, Mr. Chairman.

Mr. Corson, I am unfamiliar with Mathematica Policy Research. Who is it that funds what you do? Who wants this kind of research done?

Mr. CORSON. This particular research was funded by the Federal Government, by the Department of Labor.

Mr. MCDERMOTT. By the Department of Labor?

Mr. CORSON. Yes.

Mr. MCDERMOTT. So you are paid by the Government to do this?

Mr. CORSON. Yes. We received a contract to do a survey of unemployment insurance recipients, and analyze the data we collected.

Mr. MCDERMOTT. How large a contract was it?

Mr. CORSON. You are asking me in dollars?

Mr. MCDERMOTT. Yes.

Mr. CORSON. It was about $400,000. We interviewed about 3,000 individuals throughout the country.

Mr. MCDERMOTT. You are who I am looking for then. I would like you to trace for me the history of who was counted unemployed and who was not counted in the 1980s? Who has been added to those who are considered employed and who has been dropped out? Can you outline that for me?

Mr. CORSON. You are asking who is counted by the Bureau of Labor Statistics?

Mr. MCDERMOTT. Yes.

Mr. CORSON. The definitions, I don't believe, have changed for many, many years.

Mr. MCDERMOTT. They are absolutely the same? There are no counting of military groups or anything? There are no new groups?

Mr. CORSON. There may have been some change in whether they counted just the civilian labor force or added the military; that's——

Mr. MCDERMOTT. You are shaking your head, Mr. Conte, maybe you can add something?

Mr. CONTE. Well, the military group was added into both to the enumerator and the dominator at some point in the 1980s.

Mr. MCDERMOTT. What was the effect of that on the——

Mr. CONTE. I think it lowered the unemployment rate by less than half of 1 percent at that point in time. There was a discrete jump.

Mr. MCDERMOTT. OK.

I have a second question related to what Mr. Moody is talking about and that is the whole question of defining what unemployment is all about. If you look at unemployment in this country, it has gradually changed over the course of the last 30 or so years. Retraining is beginning to be so much more important now than it was in 1950. So comparing 1950 to 1990 or 1960 to 1990, it seems to me that when somebody goes onto unemployment today that

person may never come back. They can sit there and wait for the steel industry to come back until they turn to dust.

So, unemployment designed to carry you through the trough until you get back to your old job at the mill is just nonsense as a social policy. It seems to me there is a missing link here in terms of tying unemployment to getting yourself into a retraining program. In fact, it seems to me that if you get into a retraining program or an educational program in some cases, definitions in States eliminate your eligibility for unemployment. There are all kinds of wrinkles across the country.

I would like to hear you talk about what we are going through in the State of Washington where we are have many unemployed loggers. The problem is, the trees are not there any more. Unemployed loggers can sit out in the trees, in the stumps waiting for 50 years until another crop grows, but that's a long time to wait for a job.

So I am interested in your ideas and your research about the need to tie unemployment to retraining programs.

Mr. CONTE. There's a history of tying welfare programs to training programs. And, in particular, that was one of the questions in Maryland, whether, indeed, some of the short-run increases in the AFDC caseload were caused by requiring and offering free job training? The question was it so happened that there was a timing correspondence. Free job training became available right at that point when the caseload began to increase and a lot of people were saying, Well, people were going on welfare to take advantage of job training. Well, I don't think that that is the case, but nonetheless, I think that goes to the prior remark in response to the question of whether we should be looking at UI more as an income maintenance program versus an insurance program?

From an economist's point of view, I think it comes down to the issue of whether you are testing, and if so, what you are testing? For an income maintenance program you test means. Perhaps what you are suggesting is that for your type of program you should test not job search behavior, but job search behavior or participation in a retraining program. That would seem to be an implication of your question.

Mr. MCDERMOTT. What do you think would be the impact if that were the criteria?

Mr. CONTE. I think it would be salubrious if there were, indeed, offerings of retraining programs that were meaningful and cost effective.

Mr. MCDERMOTT. That's a big if.

How about the others? Do you have any feeling about the tying to retraining?

Mr. SHAPIRO. That's not an area I have really examined. I would just like to reiterate the double whammy though, and that is you not only have a historically low level of unemployment insurance protection, you also have—despite the changes in the economy that suggest the need for a refocus on Federal efforts to retrain workers—a cut in training and employment programs of 56 percent over the past 10 years.

Mr. MCDERMOTT. Do you have anything to say, Mr. Corson?

Mr. CORSON. Yes, in some other research that we did we found that relatively few unemployment insurance recipients participate in a training program when offered training. For many of these individuals some assistance—placement assistance, or job search assistance—is quite effective, but training is a more difficult thing and it is probably appropriate for relatively few unemployment insurance recipients.

Mr. MCDERMOTT. But if it were, you would go into a training program and you get the extended benefits. In my experience with unemployed people, the difficulty is often that, at first, they think they are going to get a job very quickly and it only kind of strikes them after a while that they are going to have to go and get some training to be reemployed. They are halfway through their 26 weeks before it sort of sinks in that the old job is not really going to come back.

It would then make sense to have an extended benefit program tied to a retraining program.

Mr. LEVIN. If the gentleman would yield? Rather tucked away in Mr. Downey's bill and a bunch by a number of us last year is just that idea. It did not receive a lot of attention because the bill was never going to make it out of committee, unfortunately. But it is surely something worth pursuing provided as said, there are training opportunities available and it made it conditional and contingent upon not only the promise but the existence of the training opportunity.

I think it was the first such step ever suggested and it was revolutionary and we wanted people to react. They said they did not very much because the bill, itself, was not going to pass. But maybe this year it has a better chance, the overall package.

Mr. MCDERMOTT. Perhaps I arrived just in time to vote it out?

Mr. LEVIN. I hope so.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Acting Chairman DOWNEY. The gentleman's arrival has been fortuitous in that respect. The gentlewoman from Connecticut had a question

Mrs. JOHNSON. This is a subject that I had hoped to pursue so that I am very pleased that the subcommittee is addressing it.

However, we must be very careful about allowing it to be only conditional on the resources we provide. There is a whole community college system that ought to be used so that an unemployed worker truly improves his or her options. I don't think we have to focus narrowly on job training. We have not proven ourselves to be very skilled at that. We might, however, make at least one course at the community college a condition of extended benefits just to broaden ones horizon, get out with other adults that you have not met.

One of the things that is so terribly bad about unemployment is the isolation and depression. So if we are to strengthen the extended benefits program I am very interested in the aspect of making training or education mandatory and frankly I don't want it limited by Congress. While we have cut training funds, we are still spending $16 billion on training funds. And a lot of the funds that we cut were CETA stuff where a lot of it was not producing very much training. So I don't think you can quite say that the cut

in funds is a good indicator of the amount of training and the quality of training.

Lowering the trigger is necessary but we also need to expand the number of people that we count, so that the trigger is tripped at the right time.

I would also appreciate your recommendation on the type of research we should undertake to better assess the real level of unemployment and the segment of the population that should be insured.

My understanding from previous hearings is that the decrease in the number of insured was primarily the result of State eligibility changes. Perhaps we need to consider setting minimum standards. But we need to know the options so that we can ensure that the number that we count is closer to the number that is actually unemployed?

Mr. CORSON. Well, changing to the total unemployment rate as opposed to the insured unemployment rate is the way to try and achieve that.

Mrs. JOHNSON. That would certainly make the trigger hit faster and——

Mr. CORSON. Well, it also counts equal.

Mrs. JOHNSON. It counts everybody?

Mr. CORSON. Yes, and would be done in the same way in all States.

Acting Chairman DOWNEY. Thank you, Mrs. Johnson.

One of the things that is important to remember is that the Extended Benefit Trust Fund has some $8 billion in it, and there are only two places in the United States—Rhode Island and Alaska—where people are receiving extended unemployment benefits.

As Mr. Levin pointed out, it was our initiative—his more than mine—to encourage training and reeducation. A lot of these people have been diligent in their attempts to find work, but they are unemployed because there is no work.

The extended benefit program needs to be a tool that keeps people in their apartments, and doesn't allow them to lose their houses or have their families broken apart. We have plenty of money here, but we have laws that directly prohibit them from receiving these benefits. Let me thank the gentlemen on the panel. You have been very, very helpful and we would like to continue this dialog as we introduce legislation. I am very interested in the work that you have done.

Thank you, very much.

Next, the committee will hear from some people who have been unemployed so that we can get a better perspective from their feelings about what they believe should be done. The Baltimore Unemployed Council, Hon. Lawrence Bell, councilman for the Baltimore City Council is here, and Mr. Bell is accompanied by Charles Walker and William Buckheit, who are from Baltimore. They are both unemployed workers.

Gentlemen, will you proceed to the witness table?

Mrs. JOHNSON. Mr. Chairman, could I ask you to include a statement in the record by Congressman Chandler?

Acting Chairman DOWNEY. Without objection, Mr. Chandler's statement will be incorporated into the record at this point.

[The prepared statement follows:]

STATEMENT OF HON. ROD CHANDLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. Chairman, I would like to commend you for calling this hearing. One major problem with our Nation's unemployment insurance program is that not all beneficiaries are reemployed by the end of the 26-week benefit period. It was interesting to note that Mr. Walter Corson found in his study that 60 percent of the people who exhaust their benefits are unemployed 10 weeks beyond the end of the benefit period. This is an alarming figure. I hope this hearing will help us to uncover some of the reasons surrounding this situation.

I am afraid that we may see more evidence of this problem in the Pacific Northwest. Continuing uncertainty surrounding the application of the Endangered Species Act indicates that high levels of unemployment in the timber industry will continue. It is possible that many of these workers will be unemployed well beyond the 26-week benefit period, because alternative jobs in isolated communities are difficult to find.

The problem here is that in many remote Northwest areas entire towns and communities have been built around a working sawmill. When it shuts down, the whole town is out of work. And there are no industrial areas nearby where they can seek employment. The lack of economic diversity in these communities is the main problem here. However, I do not think these people should be forced from their hometowns because of it. Alternative job training for individuals can assist economic diversification efforts.

What I believe we need to do is give these people the opportunity to succeed. A combination of a community economic growth plan and worker assistance in the form of counseling and/or retraining is what is needed. If these workers are given support services early on, they will be in a position to gain reemployment much sooner.

I am pleased that the subcommittee is exploring the situation surrounding long-term unemployment and that we will be looking at job search and reemployment services for the unemployed in the hearing to be held Thursday.

Acting Chairman DOWNEY. The New York Coalition for Extending Unemployment Compensation, Immanuel Ness, who is a member; accompanied by Joan Shepard, who is a member of the Newspaper Guild, Local 3; and Mr. Ness and Ms. Shepard, would you please come up?

The Philadelphia Unemployed Project, Margaret Jenkins, member and an unemployed worker. Ms. Jenkins are you here and would you please have a seat?

And from the New York Unemployed Organizing Committee, Keith Brooks, who is the coordinator who will be accompanied by Gloria Sneed.

Let's hear first from my friends from Baltimore, Councilman Bell and by Mr. Walker.

STATEMENT OF CHARLES WALKER, BALTIMORE UNEMPLOYED WORKER, BALTIMORE, MD., AND MEMBER, BALTIMORE UNEMPLOYED COUNCIL

Mr. WALKER. First I want to apologize because Councilman Bell could not make it.

Acting Chairman DOWNEY. And you are Mr. Walker?

Mr. WALKER. I am Mr. Walker.

Acting Chairman DOWNEY. Mr. Walker, why don't you start then and then we will hear from Mr. Buckheit?

Mr. WALKER. OK. I have been unemployed since January 1989. I have been job seeking and I have not found work. I found work and it was minimum wage and I asked what was the minimum wage—

$4.25, and they said, $3.80. Therefore, they put me on the hold list and they did not call me for a while. I was not worried about that too much because that was below minimum wage.

I would go to the job training system in Baltimore, Md., at least once a month. And all that is, is looking at computers and see if I could find a job and there is no more work there. So if I don't do that, my benefits will be cut off, so I have to do that. And what I did not know was there is people out here to stop us from getting benefits. To my knowledge, I understand that we done already worked for that unemployment money and the set-aside for it.

I would like to see unemployment benefits extended behind the fact, where am I going to go when my unemployment runs out?

Acting Chairman DOWNEY. We want to hear from all the members of the panel and then we will ask questions, OK?

Mr. WALKER. OK.

Acting Chairman DOWNEY. Mr. Buckheit.

STATEMENT OF WILLIAM BUCKHEIT, BALTIMORE UNEMPLOYED WORKER, BALTIMORE, MD., AND MEMBER, BALTIMORE UNEMPLOYED COUNCIL

Mr. BUCKHEIT. Ladies and gentleman, I would like to read to you, and I hope you can hear me well enough to understand what I have got wrote down today. I am from Maryland and in Maryland the unemployment rate is more than the national average is. It is about one-third more. This has been caused by cutbacks of jobs from all fields—factories cutting back and laying off, government contracts have been canceled and now other related businesses are laying off, cutting back, and closing.

There's more of a percentage of unemployed people and Government statistics show because these people do not count—the people who have run out of benefits or the ones who could not get benefits to begin with. Most statistics have mentioned this and no one, to my knowledge, has tried to get an accurate count of unemployed people.

I would hate to guess the actual count because I know I would probably be too low. We once had extended benefits and the Government stopped it. And it is time now to give it back to the people. Many of these people, whose benefits have run out, or who could not get benefits, really are becoming another statistic—that of the homeless, many of them with families.

We would rather be working than collecting unemployment but with more and more jobs being lost every day, the prospect of work is not good. With the unemployment rate going up and the economy going down, it is going to take a lot longer to recover from this than the economists are predicting. We need our benefits extended now, not 6 months or a year from now.

We can pass emergency legislation for war and send millions of our tax dollars to foreign countries when they ask for it. Don't you think that it is about time that people get some relief? We, the unemployed need your help. Extend the benefits now. When you vote on this, think of us, the little people, not the lobbyists or the ones against the bill, but think of us who put you where you are because we trusted you to serve in our best interests.

It is time for the Government, Senate and House to start thinking about us and do something that will benefit us. Extend our unemployment benefits now.

Thank you. [Applause.]

STATEMENT OF ALBERT HALL, MEMBER, BALTIMORE UNEMPLOYED COUNCIL, BALTIMORE, MD.

Mr. HALL. In response to the question of how things are being counted as far as unemployed people are being counted and numbered, if a person works a job and receives unemployment benefits he still is a taxpayer. After his benefits are depleted he is no longer a taxpayer and, therefore, he will no longer be counted. You have people who have been run out of unemployment benefits so, therefore, they will not be counted.

If these benefits are and must be lengthened, then the number would rise and the percentage would rise. You have people working and that have worked for years upon years within the system and they feel as though they have put enough into the system in order for the system to give them something back.

These people lose their homes, their families, their self-respect. And they say go to welfare or social service, and that takes a lot away from a man and that takes a lot away from a family structure. We, the unemployed people of Baltimore are asking Congress and the Cabinets here, to extend our benefits and let us keep our pride, and also, yes, give us job training because we do want to work.

Thank you. [Applause.]

Acting Chairman DOWNEY. Thank you.

Ms. Shepard.

STATEMENT OF JOAN SHEPARD, MEMBER, THE NEWSPAPER GUILD, LOCAL NO. 3, NEW YORK, N.Y., AND MEMBER, NEW YORK LABOR-COMMUNITY COALITION TO EXTEND UNEMPLOYMENT BENEFITS

Ms. SHEPARD. My name is Joan Shepard, and I am member of the Newspaper Guild, Local 3, and the Newspaper Guild of New York City. I have been unemployed since October 26, because of a labor dispute between my employer, the Daily News, and nine unions. But we union members did not walk out. We were forced out. And according to an NLRB finding issued on February 6, the Daily News triggered the strike as a pretext to permanently replace bargaining unit members, in other words, the union members.

Therefore, I am unemployed due to no fault of my own and because of the deliberate actions of my employer. In this depressed economy, I do not know how long it will take me to find another job. I am not the only educated, experienced news person on the job market. Twenty-six weeks rolls by very quickly. Our situation was exacerbated because we did not qualify for unemployment until the 8th week because we were involved in a labor dispute. At the Daily News, therefore, we were hit with a triple whammy. First, we were locked out by the employer; second, we had to wait 2

months until we got the first unemployment check; and third, because of the economy, jobs are hard to find.

It is the purpose of this Government to provide public safety and to protect the citizens. We, citizens, are your employer. If you can spend billions of citizen's money to restore the Emir of Kuwait to his throne there has got to be money to protect unemployed American citizens and their children. Are we not as important as the Emir? When we, the unemployed, were employed, we paid taxes and you are now spending our money on the Emir. Extended unemployment benefits are essential. Being unemployed, the unemployed are not an amorphous mass of faceless people. We are skilled; we are educated. We are not standing on the corner drinking wine. Some people are also unemployed, partially because of you, you who did not keep an eye on the S&Ls. [Applause.]

We should not have to ask you for extended unemployment benefits, we are only asking for our tax money, the money we sent here to begin with. We elected you to protect us, to provide public safety and to help us maintain life and liberty and the pursuit of happiness.

Thank you, very much. [Applause.]

Acting Chairman DOWNEY. This is one of the more livelier hearings this subcommittee has had.

Thank you, Ms. Shepard for your testimony.

Ms. Jenkins.

STATEMENT OF MARGARET JENKINS, MEMBER, PHILADELPHIA UNEMPLOYMENT PROJECT, PHILADELPHIA, PA., AND MEMBER, HOTEL EMPLOYEES AND RESTAURANT EMPLOYEES INTERNATIONAL UNION

Ms. JENKINS. Good afternoon Mr. Chairman, and members of the committee. My name is Margaret Jenkins. I am here representing the Philadelphia Unemployment Project and the thousands of unemployed in the Philadelphia area. I am also directly representing a large number of laid off workers who are in this room today. I would like to ask the unemployed to stand up. We all want to let the committee know that we are here to ask for and to demand your immediate help to protect ourselves and our families by extending our unemployment benefits.

I am 52 years old and I have been working since I was 16. I am the mother of seven children, age 35 to 22. I have raised them myself for the last 21 years through my own labor. Much of this time I have worked two full-time jobs to make ends meet. I had never been on unemployment compensation in my life until September of last year.

At that time, I was laid off from my job of the last 6 years as a chambermaid at the St. David's Inn, a hotel on the Philadelphia main line. A new owner came in and laid off nearly the entire staff, including me. He has since hired a new staff with fewer workers at lower wages and without a union.

I am now collecting $105 per week of unemployment compensation and I have 4 more weeks of benefits left. I am on my own and this check is my only source of income. But my story is not unique. In Philadelphia, every unemployment office has lines coming out

the doors. Every time I have gone back to the unemployment since September, the lines have gotten longer. How are we supposed to find work? The employers are laying off more every week. People are not going back to work; more are being laid off.

How many in this room have less than 2 months of unemployment benefits left? Mr. Chairman, we have a crisis for working people in this country. We have a vicious recession but nobody is noticing and nobody cares. And 26 weeks of unemployment is a bad joke on those of us who depend on these benefits to feed our families.

Does anyone care about us? There is not even a bill before the committee to extend unemployment benefits. The extended benefits program does not work. Pennsylvania is not even close to triggering-on, and only two States in the whole country now get extended benefits. Well over 1 million people have been laid off since July, a faster rate than even the 1975 or the 1982 recessions. Janet Norwood, Commissioner of the Bureau of Labor Statistics called the labor market dismal in January. She was telling the truth. And 2.3 million people exhausted their unemployment benefits in 1990. It is going to be much worse this year if the Congress does not act to extend our unemployment benefits. Even the Bush administration, which is not at all worried about those of us who are unemployed in this recession, estimates that unemployment will still rise another one-half of 1 percentage point before the recession ends. The Federal Reserve estimates that unemployment rates will go up as high as 7 percent. We are running out of our benefits now and you know that things are still getting worse.

We are here today because there is an economic emergency in this country. We are all concerned about our troops in the Gulf, we pray that they come home safely but that does not erase the fact that my benefits will run out in 4 weeks and I can't find a job. Multiply my situation by millions and we have an emergency in America.

Thank you. [Applause.]

Mr. Chairman, and members of the committee, you have an obligation to act immediately to move legislation that would extend unemployment compensation to 65 weeks like it was during the 1975 recession. Give us a chance to ride out this recession. We did not cause it and we should not have to lose everything because of it. Also for our neighbors and friends who have already run out of their unemployment, we demand that this extension be retroactive, at least back to the fall when this recession started to hit us so hard. And last, none of us can understand why the unemployment compensation is being taxed. We are already out of work. Our income is at least cut in half and nothing is withheld from this unemployment. How do you expect us to pay these taxes?

We look to this committee to listen to our pleas and take immediate action to protect us during the recession. We look for you to lead the Congress and the Nation and take the minimal step of extending unemployment benefits. There is much more that could be done in terms of job programs, health care for the unemployed, and expanded training to help us. An extension of unemployment is the minimum that must be done. Don't turn your backs on the workers of our country.

Thank you. [Applause.]

Acting Chairman DOWNEY. Mr. Brooks, did you want to say anything, or did you have Ms. Sneed here?

Mr. BROOKS. Well, somebody is here in place of Ms. Sneed and then I think I have some comments.

Acting Chairman DOWNEY. Fine.

STATEMENT OF GLORIA SNEED, UNEMPLOYED WORKER, BROOKLYN, N.Y., AND MEMBER, NEW YORK UNEMPLOYED COMMITTEE, PRESENTED BY MAGGIE COLLINS

Ms. COLLINS. Ms. Gloria Sneed could not make it today so I am here. My name is Maggie Collins and I am an unemployed computer operator from Brooklyn, N.Y. I am right in my prime of my working career. But at 52 years old I have been unemployed for nearly a year now. I depend on what little unemployment benefits I get for my survival. On March 12, 1990, I lost my part-time position as a recreation leader at the Willoughby Nursing Home in Brooklyn, N.Y. While I would have preferred full-time work then, I was forced to work part-time because my employer did not have any openings available for full-time staff. I was previously employed for 4 years as a computer operator for a major New York City bank, but I was laid off when the bank was cutting down on staff. Since I was on part-time staff in my last position my employer was not required to provide health insurance benefits. The nursing home deliberately hired four part-time recreation leaders for 2 days a week as a way of avoiding paying such benefits.

I depend on what little I get from unemployment insurance for my daily survival. Even though I believe my benefits check of $64 a week is woefully inadequate I would not know what to do without the money.

My expenses, including providing for my 33-year-old son who was diagnosed as HIV positive last year and recently contracted full-blown acquired immune deficiency syndrome. My son has a wife and five young children. A substantial portion of the last check I received from the unemployment insurance office went to buy vitamins to help maintain his frail health.

While I am out of work, I spend much of my time caring for my son's daily medical needs—buying groceries and preparing meals, escorting him to clinics and hospitals, obtaining medical records, and thus far, unsuccessfully trying to get him on public assistance.

Needless to say, my unemployment benefit check is not sufficient to pay for my own living expenses. I am now 2 months behind in my rent in the one-room apartment that I call my home. I am now paying my rent on a weekly basis. I have no medical insurance and very little food in my refrigerator.

Aside from the weekly unemployment benefit, another problem is that I have to struggle to get the checks that I am entitled to: that is on rare occasions that my check arrives on time. Over the past 5 months, I have spent 6 days that I could have been looking for work at the crowded unemployment center on Dean Street and 4th Avenue trying to get my benefits reinstated.

I have now been actively seeking a job for a year without success. In order to comply with New York State unemployment insurance

requirements, I scour the newspapers for work. The job search service provided at the unemployment insurance center is a bad joke. Rarely are there any real jobs available. But things have really been touch and go. Things are difficult now. But they could get even worse. Now that my 26 weeks are about to run out, I face losing everything that I have left—my home, my dignity, most of all my only child.

Congressmen and Congresswomen, despite all the gloom in my life, I am fighting to be optimistic. I still have faith that things could be better. What you do or don't do here will determine the future of my life and the lives of many other people, just like me, who are struggling every day for survival. No matter how hard we try to find a job, many of us will remain unemployed through no fault of our own.

I remain hopeful that you will hear our urgent plea and extend benefits immediately.

Thank you, very much. [Applause.]

STATEMENT OF KEITH BROOKS, COORDINATOR, NEW YORK UNEMPLOYED COMMITTEE, NEW YORK, N.Y.

Mr. BROOKS. Thank you, Mr. Chairman and members of the subcommittee.

Before I begin, I just want to say that there are still more people in the hall and I am wondering if they could come in.

Acting Chairman DOWNEY. As long as there are empty chairs, they are allowed to fill them, but they are not permitted to stand. There are a number of empty chairs here. So that we should try to accommodate as many people as we can.

Mr. BROOKS. Maybe somebody could say something to people in the hall.

Acting Chairman DOWNEY. Yes, they will.

Mr. BROOKS. Because people obviously came a long way to attend this hearing, and they should be seen and heard.

My name is Keith Brooks and I am one of the two coordinators of the New York Unemployed Committee, along with Manny Ness, who I thought was going to have an opportunity to testify. We are also on the staff of local 802 of the American Federation of Musicians.

When we started the New York Unemployed Committee in November it was very clear to us from the first day that we went out to an unemployment center with a petition calling for extended benefits that this was an issue of great urgency for a lot of people. That was back in November, before it was even officially recognized that we are in a recession, before the White House recognized it, well after everybody else did. And we have those petitions. We quickly got over 2,000 and we expect thousands more to sign. It is obviously a popular issue.

I think we are here today to say a couple of things in particular. One, I think it is important, I guess for the record to say that we want to thank Congressman Downey and the AFL–CIO for keeping the issue alive over the last 2 years, when, in fact, there was very little publicity about the fact that the unemployment system was

being dismantled, in terms of the bills for extending unemployment benefits.

There are some other people that deserve to be mentioned, people like Phil Van Gelder in Baltimore, in Maryland who has basically been fighting to reform unemployment insurance for a number of years, and people like John Dodds from the Philadelphia Unemployment Project. And so we would like to thank those people.

I think we are at a point where getting it on the record, while important, it is now time to make some changes, and to get something passed in a real way that is going to help people. One of the questions that we want to ask that we hope has been asked somewhere, is where is the White House?

Does President Bush have a representative attending this meeting? Is Michael Boskin here? Is the new Secretary of Labor here? Does anybody know?

Acting Chairman DOWNEY. No, they are not here. Why don't you finish your statement and then I will listen to Mr. Ness and then we will address some of those other concerns.

Mr. BROOKS. Well, these are real questions because it concerns us that you have a new Secretary of Labor who was quoted in one of the papers in New York as equivocating on the issue of extended unemployment benefits and she should be here. As a matter of fact, we think that President Bush should be here. As a matter of fact, we think that you should invite them to when the bill comes out and I guess if you don't, we will. You know, we are going to go to the White House and invite President Bush to come down here and hear for himself what the story is with the unemployed because it doesn't seem that he still thinks that is very much of a problem and it seems that that is something that needs to be brought directly to him.

And I guess another question for President Bush and any of his supporters in the room or any of the people in Congress who supported his position is whether or not George Bush is going to go down on the record as the only President to not extend unemployment benefits during a recession. I mean even Ronald Reagan was forced to. The Federal Supplemental Compensation program of 1982, after he had sabotaged the extended benefit program, that was a result of protests like this that there was an FSC program that was passed and Ronald Reagan had to go along with it. So the question for George Bush is, is he going to make history by being the only President in the country to actually oppose extending unemployment benefits?

Our position is that we support the AFLs position to restore 65 weeks of unemployment benefits. We also believe that benefits should run as long as people need them. Now, for people who say that is a wild pie-in-the-sky idea, we just want to point to other countries around the world, like in Europe, where 1 year, 2 years, 3 years—I think in some countries it is even 5 years—benefits are available to people who are considered part of the job market. So we support as many weeks as is necessary.

On the question on the kind of legislation which we have met with you about, and with aides to other congressmen, like Senator Moynihan, we think that there is a need for both an immediate

temporary short, stop-gap program that could be passed as soon as possible and there is clearly a need to revitalize the extended benefit program. One or the other won't do. The idea of us just getting a bill for 6 more weeks of benefits is clearly inadequate, for 10 more weeks of benefits is clearly inadequate. If that is what can get passed sooner than rather than later, then OK, but we need to take a look at the basic extended benefit program which is a permanent program on the Government books for which tax money is continually channeled into. We reject the idea that you just walk away from the extended benefit program because the trigger is too high or because it is too difficult. Because that leaves unanswered the question of what do you do with the money that has gone into that extended benefit program?

And I mean at a time when people are fighting against cuts all over and the first question that people hear is well, how do you expect us to fund this new program? The answer on this question is very obvious and simple, the money is already there. Out of the Federal unemployment tax that employers pay which goes into three or four different funds—one for your weekly benefit on a State level; another for the administration of the system; another one for extended benefits. There is what—$8 billion in the extended benefit program.

So to me and to other people it is ludicrous to talk about how are you going to find money for extended benefits, another extended benefit program when there is $8 billion that is sitting there.

Same thing applies to the administration of the offices. Everybody here has been out at the offices with the long lines and money is also in there—$1.4 billion—so the money is there and it is hard to understand how the people can talk about the need to raise taxes and the rest of it, when that is what the situation is.

We also believe that the issue is not just more weeks of benefits as was mentioned. We think that the average national unemployment benefit was $164 last year, that is subpoverty. There is a need for other measures for the unemployed—health care access. Lynn Williams from the steelworkers testified on that last month. I think Congressman Downey is on record for that. And we think that if Congress and this country can recognize the hardships imposed by military service, through an act that has been in effect since 1919, we think there should be a recognition of the hardship imposed on unemployment by people who lose their jobs through no fault of their own. We think that people should have mortgage protection. We think that people should have protection against evictions. People should have protection against utility turn-offs, and a number of these measures have been won in individual States around the country, like Pennsylvania and Maryland over the last 10 years and we think that should be approached on a national level.

Basically what we are talking about is jobs. I mean that is the basic question and this country seems unable to provide decent paying, and secure jobs. We know people who have now been in and out of three and four or five different jobs in the course of their working career in the last 15 years. This is the fourth recession in 15 years. The idea that there are no slumps and recessions which used to be promoted by certain economists is clearly ridicu-

lous and the question has to be raised what kind of society is this that people can't count on what kind of work they are going to have for their families and themselves? So the basic question is jobs, but without jobs, how people are going to survive?

I think it is important to get on the record as to how we have come to this situation. It makes people uncomfortable but everybody should know that when there were 65 weeks of benefits, from 1975 to 1977, President Carter cut them from 65 weeks to 39 weeks, 26 weeks of benefits was cut, and it was President Carter who started taxing unemployment benefits. Ronald Reagan came along and finished off with a vengeance what started under Carter. I think actually some of the people in this room might have voted for taxing those unemployment benefits.

What is important to look at is the rationale for why that all happened and the rationale was that with 65 weeks of benefits, at a big 50 percent or so of your previous pay, the unemployed were living too high off the hog. And the rationale was that people had to be disciplined and forced back into the labor market.

I am not making this stuff up. You can go read the Economist like Martin Feldstein, who wrote articles about how unemployment benefits was causing unemployment. That is how we got to where we are today. That's the results of it. These are the results of the dismantling of the system and we think that it is about time that Congress took a head-on rebuilding and restoring the only Government program that people have when they are out of work. [Applause.]

Thank you.

[The prepared statement follows:]

TESTIMONY BY KEITH BROOKS, COORDINATOR OF NEW YORK UNEMPLOYED COMMITTEE, AT HOUSE WAYS AND MEANS COMMITTEE HEARING ON LONG TERM UNEMPLOYMENT --FEBRUARY 26, 1991

My name is Keith Brooks and I am one of two coordinators of the New York Unemployed Committee, along with Manny Ness. In addition to our efforts to establish a New York area unemployment advocacy organization, we have written a number of articles analyzing the crisis of the Unemployment Insurance System, which have appeared over the last few months in the Nation, the Baltimore Sun, Philadelphia Inquirer, In these Times, the Dallas Observer, and elsewhere. I am also on the staff of American Federation of Musicians Local 802.

NYUC was started in mid November. It was clear from the very first day we went out to an unemployment office with a petition calling for more weeks of unemployment benefits that there was a urgent demand for action to deal with the lack of protection afforded unemployed workers. We have those petitions with us today, with over 2000 signatures gathered at unemployment centers.

We want to know-- when is the White House going to stop opposing attempts to extend unemployment benefits? We want to know why George Bush himself is not attending these hearings, or Michael Boskin, or the new Secretary of Labor so they can hear for themselves, first-hand, the crisis that people are in. Is George Bush determined to be the first president to not extend unemployment benefits in a recession? We challenge George Bush to come hear for himself what the unemployed are saying.

We support the AFL-CIO position to restore 65 weeks of unemployment benefits; we also believe that benefits should run for as long as people need them. The United States provides fewer weeks of benefits, at a lower percentage of former pay, than almost any other western industrialized country.

We believe that there is a need for <u>both</u> immediate emergency legislation for more weeks of unemployment benefits with "reachback" for all who have exhausted their benefits without finding a job, <u>and</u> a thorough overhaul of the EB program. The idea of leaving the EB program intact while setting up a totally separate extended benefit program as was done from 1982-85 leaves unanswered what happens to all the money raised by that portion of the Federal Unemployment Tax currently channeled to the extended benefit program.

It is ludicrous to discuss how to fund additional weeks of benefits in a new, separate program when $8 billion sits unused in an account intended for additional weeks of benefits!!!

And it is ludicrous to discuss how to fund more benefits when just the interest alone on all the funds in the Federal Unemployment Insurance Fund-- some $4 billion last year--is enough to fund extended benefits.

In fact, we challenge the President and his supporters to justify 8 billion dollars sitting in this special account earmarked for extended unemployment benefits, that cannot be used for anything else, while 2.3 million people used up all their unemployment benefits last year. We challenge them to justify not using this money, already collected through a tax on employers, when people are having their lives ruined because they lost their jobs. How many people lost their home last year or were evicted because they had neither a job nor source of income? How many put off medical care for themselves or their families?

Without decent paying jobs, the unemployed need more than additional weeks of unemployment benefits, however, which averaged a sub-poverty $164 last year. There is a need for other measures to protect the unemployed-- such as health care access, which United Steel Workers of America President Lynn Williams has called for, and which Congressman Downey is also on record for.

And to the same extent to which this country has recognized hardship imposed by military service and passed relief measures to protect military personnel against evictions and foreclosures, so too should it be recognized that when someone who has worked all their life and then loses their job through no fault of their own, that those people need special protection too. During the early 80's a number of states passed mortgage relief laws, moratoriums on utility turnoffs and other measures. We call for an Unemployed Bill of Rights, that would provide protections against people losing their homes, against gas and electric turnoffs, losing possessions and provide access to medical care as well as job retraining.

This is now the 4th recession in just 15 years, the 8th since the end of WW2. Contrary to the optimism that declared that the economy had tamed the business cycle and done away with its drastic ups and downs, the question of recession is not if but when.

The fundamental issue is jobs-- decent paying, secure jobs. New approaches toward job security have to be explored, including the shorter work week and a more active government role in providing employment. People want to be able to provide for themselves and their families, and make some kind of contribution to society. The myth that people prefer unemployment is belied every day at the unemployment office, where people desperately go out seeking work that is not there. There is only one group in society that is comfortable not working-- the idle rich who control so much of the rest of our lives. We think it is time to revive the notion that a job is a basic human right, along with access to health care, food and shelter.

But without jobs, people need a way to survive, a source of income. If the President can find billions of dollars to bail out the Savings and Loan Industry and finance a war in the Gulf, the issue is clearly priorities and not just finances.

STATEMENT OF IMMANUEL NESS, MEMBER, NEW YORK LABOR-COMMUNITY COALITION TO EXTEND UNEMPLOYMENT BENEFITS, NEW YORK, N.Y., AND COORDINATOR, NEW YORK UNEMPLOYED COMMITTEE

Mr. NESS. Hello, my name is Immanuel Ness and I am one of the two coordinators with the New York Unemployed Committee I am also speaking on behalf of the newly formed New York Labor Community Coalition to Extend Unemployment Benefits, a group that formed yesterday with a meeting of around 50 leaders of labor unions in New York City, that are recognizing that the problem of unemployment insurance availability as their membership begins to feel the pinch of joblessness. We represent people in Long Island, New York City, and Westchester County that are finding that inadequate unemployment benefit availability is becoming extremely a crucial problem as job availability declines.

The testimony that I am presenting today points to some of the problems that we are facing in New York City. If anyone has any doubts about the recession today, many of us in New York have endured near depression conditions for many, many years. In Brooklyn unemployment centers, our representatives deal every day with the problems of homelessness and problems of poverty that are related to unemployment.

The unemployment center is a fault line where people get shook out of the system. We see people that are homeless; we see businessmen that just lost jobs on Wall Street; we see everybody.

The unadjusted unemployment rate for New York State jumped 31.7 percent just in the month of January. We are sorry if we do not have a good reason to believe that the recession is imminently over, as George Bush does. As the White House predicts an early end to the recession by the summer, most economic forecasters—and I am including leading politicians, the New York City Comptroller's Office and others—aren't predicting recovery in New York City after 1992. They can't even see what is going to go on after 1992.

New York City, has lost its manufacturing base and now depends solely on the service sector which is inadequate in providing jobs for New Yorkers as a result of the slump in manufacturing that resulted from the shake-out of the printing industries and the textile industries and needle trades.

I would also like to add that the next sector of workers that may face the problem of unemployment is public service sector employees. The provisional workers in New York City that were hired as a result of the Welfare Reform Act of 1989, many of these people were welfare/workfare recipients that are now the first to lose their public service jobs. It is likely that many of these people will be back on the welfare rolls after they exhaust their 26 weeks of unemployment benefits.

Why do we need more than 26 weeks of benefits? Because it provides an opportunity for these people to look for work before they get caught up into the system of welfare. The welfare system has been eroded over the last years and does not any longer respond to the reality of joblessness.

I would just like to conclude by saying that market forces alone are not sufficient to bring about the recession's end. Employers are not going to provide extended benefits for their former employees that run out of unemployment insurance. For this, we depend on you, congressmen and congresswomen.

Why can't we utilize the money in the $8 billion Federal account that was originally intended for employment benefits? There is a dire need to release Federal Extended Benefit Funds to help revive the economies of urban areas like New York and many of the other cities that are represented here, Philadelphia, Baltimore, Pittsburgh, and so forth, that are suffering through this recession.

In response to the worsening economy, a growing number of New York labor groups, community organizations, and church groups are joining together to seek solutions to the problem and the New York Labor Community Coalition urges Congress and the White House to immediately resolve the problem by releasing money for extended benefits. Unemployment insurance has been butchered over the last decade. While the unemployed received 65 weeks of benefits in the late 1970s, the current generation of unemployed workers are now forced into economic uncertainty after only 26 weeks of benefits—forcing people back onto welfare, public assistance, and homelessness.

It is unfair that the unemployed of today must be subjected to such stingy benefits. The real need is for public education and training programs, and real job creation programs, not the JPTA which is a bad joke. New Yorkers, and all unemployed workers throughout America urgently need extended benefits to help us through these difficult times.

We are looking for your support, both Republicans and Democrats on the Human Resources Subcommittee, to help achieve this goal.

Thank you, very much. [Applause.]

[The prepared statement follows:]

TESTIMONY TO

THE HUMAN RESOURCES SUBCOMMITTEE

HOUSE WAYS AND MEANS COMMITTEE

IMMANUEL NESS

NEW YORK LABOR-COMMUNITY COALITION TO

EXTEND UNEMPLOYMENT BENEFITS

FEBRUARY 26, 1991

As unemployment continues its upward climb around the country, we are facing a growing economic crisis in New York City. The White House ignores the problem of unemployment and paints a rosy picture for the future of the national economy while the jobless in our communities are quickly running out of their 26 weeks of unemployment benefits and facing the threat of foreclosures, evictions and utility turnoffs. The unadjusted unemployment rate for New York State jumped 31.7 percent in just the month of January--we are sorry if we do not have a good reason to believe the recession is imminently over. As the White House predicts an early end to the recession by the summer, most economic forecasters in New York City do not expect a recovery within the next two years. This recession has hit all New Yorkers, but many of us have been living under depression conditions for over a decade.

The latest rise in unemployment in the inner-city neighborhoods has only compounded the problems. While the latest figures in January 1991 indicate a New York City and Hispanic are almost double. If the unemployment rates of our neighborhoods were considered independently, many would be already entitled to extended benefits.

As increasing numbers of New Yorkers give up looking for work, our labor force participation rate has declined well below the national norms. The absence of real job opportunities in the current recession is having a profound affect on the social fabric of our city.

While the government neglects the survival needs of those of us who are the least well off, it is also forgetting the good economic sense in providing incomes for

those among us who have lost jobs. Historically, unemployment insurance has been utilized by government managers as a method to stabilize economic activity during economic slumps. But the failure of government to take counter-cyclical measures during this recession is contributing to a further deterioration of our local economy as stores and businesses close down. In turn, this leads to further lay-offs.

We believe that market forces alone are not sufficient to bring us out of this recession alone. Employers are not going to voluntarily provide benefits for their former employees. Why can't we utilize the money in the $8 billion federal account that was originally intended for extended benefits. There is a dire need to release federal extended benefit funds to help revive the economies of urban areas like New York that are suffering through the recession.

In response to the worsening economy, a growing number of New York labor groups, community organizations and Church groups are joining together to seek solutions to the problem. Only yesterday, New York a number of labor unions joined together to discuss the unemployment problem, reaching the conclusion that it is important to lengthen unemployment benefits for those out of work for more than 26 weeks. Neighborhood organizations are forming coalitions on the problem of unemployment, and churches are seeking solutions to the problem. The New York Labor-Community Coalition to Extend Unemployment Benefits was formed two weeks ago to urge Congress and the White House to immediately resolve the problem. Unemployment insurance has been butchered over the past decade. While the unemployed received 65 weeks of benefits in the late 1970s, the current generation of unemployed workers are now forced into economic uncertainty after only 26 weeks of benefits. We urge an immediate extension of unemployment benefits and reject the fancy accounting measures that have been set up to balance the budget. It is unfair that the unemployed must be subjected to such stingy standards. While the real need is for public education and training programs and job creation programs, New Yorkers urgently need extended benefits to help us through these difficult times.

Acting Chairman DOWNEY. Thank you, very much.

First of all, let me say to all of you that we are sorry that you have to be here at all, that you need to take time from your lives and travel whether it is from Baltimore, New York, or Philadelphia to tell us that the $8 billion that is nestled in a trust fund account should be given back to you in the form of extended benefits. It is monstrously unfair and it is the intention of this subcommittee chairman and the other members of this subcommittee to try and change the law as soon as we can.

A number of you came into my office after the last hearing and requested an opportunity to testify here and I think that you have testified very effectively to a couple of things. One, unemployed people are not lazy, they just want to work. [Applause.]

The vast majority of people would be happy to get off unemployment to get back to work. It is pure mythology to suggest that because unemployment benefits are longer, somehow people will remain unemployed longer.

I think that anybody who has been unemployed, as all of you can bear witness to, can say that that is nonsense and we accept that as nonsense in this subcommittee.

We anticipate that Senator Moynihan, my Senate colleague will be introducing legislation similar to the type that we will pass here. We are optimistic that we can pass it out of the subcommittee and the full committee.

But as Mr. Brooks pointed out, we have not been receiving positive signals from the White House. That means that we can do a couple of things right away. If the President declared an emergency, which it clearly is, then we could provide benefits much more quickly. If he doesn't declare an emergency, we have to await the changing of the extended benefits program before we can provide these benefits.

It is my hope that we will provide them retroactively to those people who have lost. They have already fallen through the net onto the pavement. And we are very much cognizant of the harm that has been done to these individuals. When I was a young man, I saw my father unemployed for a long period of time. I have personal experience with the tremendous harm it does to families. Those of us who come from working class families or middle class families can identify with you.

I very much appreciate your taking the time to come here to keep our feet to the fire. I think Ms. Shepard said it best. We managed to take care of all of the big players, but we have screwed up a lot of other things along the way.

Whether it is the S&L crisis or defense spending, we can begin soon to make up for some of these mistakes by recognizing your concerns. We ask you—I know that this may fall on some deaf ears—to be patient, but also be vigilant. You don't have to convince me and you probably don't have to convince the other members of this subcommittee that this is necessary.

But you do have to convince a lot of my other colleagues, whether they are in New York or in Philadelphia or in Baltimore, make sure that you make appointments at their offices and don't just talk to their staff, go talk to the members and demonstrate your

strong desire to see the law changed. In that way, you can be helpful in moving this process along.

Thank you, very much. [Applause.]

The subcommittee is adjourned.

[Whereupon, at 3:01 p.m., the hearing was adjourned.]

[A statement for the record follows:]

STATEMENT ON WORK SEARCH POLICIES FOR
UNEMPLOYMENT INSURANCE CLAIMANTS
FOR THE SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

March 12, 1991

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This statement describes the lessons learned from a study of the effectiveness of alternative work search policies in the unemployment insurance (UI) program. The standard state UI program requires that claimants who are not job-attached make contacts with at least three potential employers during each week they claim benefits. In addition, some states provide more intensive services (e.g., job search assistance) to help claimants return to work sooner.

Although there have been numerous studies that show that providing more intensive reemployment services are a cost-effective way of reducing the duration of unemployment, there has been virtually no research on the efficacy of work search requirements. Because a number of states are considering ways of streamlining their approach to work search monitoring in response to reductions in UI administrative funds, it is important to understand the extent to which work search policies affect unemployment spells and, hence, UI trust funds. As summarized below, the results of our study strongly indicate that work search requirements affect unemployment spells and that it is important for states to maintain an active work search policy and to not streamline their work search requirements.

Our evidence concerning the effectiveness of alternative work search policies is based on a study that was conducted in Tacoma, Washington from 1986 to 1988. The study was conducted through the cooperative efforts of the Washington State Employment Security Department, the W.E. Upjohn Institute for Employment Research, the U.S. Department of Labor, and Battelle Human Affairs Research Centers.

This study -- the Washington Alternative Work Search Experiment -- tested four different approaches to work search policy: (1) an exception-reporting approach in which claimants were not required to report work-search contacts; (2) a standard approach that required claimants to make at least three contacts with prospective employers each week; (3) an individualized approach that tailored claimants' work search requirements to their individual circumstances and the conditions of the local labor market; and (4) an approach that offered more intensive job-search assistance services early in the unemployment spell. To ensure that the observed differences in outcomes could be reliably attributed to the different work search policies, new UI claimants in the Tacoma Job Service

Center were randomly assigned to one of the four different groups. In total, approximately 10,000 new UI claimants were randomly assigned to one of the four treatment groups during the one-year enrollment period.

The evaluation of the impacts and cost-effectiveness of the experiment was performed by Battelle Human Affairs Research Centers and the results that I believe are of most interest to members of the subcommittee are summarized below. Because a unique feature of the work search experiment was in its efforts to test, for the first time, the consequences of a more streamlined approach to work search policy, I first provide additional information on the exception-reporting approach to work search that was tested in the experiment and describe the impacts of such an approach. I conclude by briefly describing our findings concerning the effects of more intensive reemployment services.

The streamlined work search policy tested in the experiment is referred to as an "exception-reporting" approach. In this approach, claimants were told to make an active search for work, but there were no specific work search directives (i.e., they were not told to make a specific number of employer contacts each week), they were not required to report their work search contacts and, as such, there was no monitoring of work search efforts. In addition, claimants were automatically sent a check for their full benefit each period amount unless they had contacted the office to report a change in circumstances (e.g., not available for work, returned to work) that affected their benefit payments. In recent years, a number of states have considered variants of this approach to work search in response to reductions in UI administrative funds.

Our findings indicate that the streamlined work search policy tested in the experiment had very large and adverse consequences for the UI trust fund. For example, relative to both the standard and individualized approaches to work search policy, our findings indicate that the exception-reporting approach results in longer durations of UI receipt of over 3 weeks and increased total UI payments of about $265 per claimant. Based on our results, if the streamlined work search policy were extended throughout Washington State we would expect a net reduction in the trust fund of about $40 million. If a similar approach were implemented nationwide, the adverse consequences for the UI trust fund would be much greater and could exceed $2 billion. The findings from our study clearly indicate that this streamlined approach is not a desirable work search policy and that states should not abandon their work search requirements or monitoring efforts.

The other major lesson learned from the work search experiment concerns the effectiveness of job-search assistance services. Claimants in the fourth treatment group who were still unemployed after four weeks were directed to attend a two-day job search workshop. Consistent with the findings for the Charleston Placement and Work Test Demonstration and the New Jersey Unemployment Insurance Reemployment Demonstration Project summarized in the testimony of Stuart Kerachsky and Mark Dynarski, our results indicate that claimants in the group directed to the job-search workshop experienced one-half week less on UI during the benefit year than those assigned to the standard or individualized work search policy groups. This corresponds to benefit payment reductions of nearly $70 per claimant and, after taking into account the additional costs of providing the workshop and associated services, results in a net reduction in UI

costs per claimant of over $50. If claimants nationwide were directed to participate in a similar workshop early in their unemployment spell, we could expect to realize savings to the UI trust funds on the order of $300 to $500 million annually.

The results from our study also indicate that the impacts of job-search assistance services in reducing UI spells are particularly strong for claimants who have been permanently separated from their jobs, as well as for women without children and white collar workers. In addition, we found that the savings to the UI trust fund from this approach are primarily due to raising the costs of remaining on UI, rather than due to enhanced job search abilities from participating in the workshop. On the other hand, however, it is important to note that these trust fund savings accrued at no cost to claimants in terms of job quality. That is, claimants directed to attend the job-search workshop found jobs with wage rates and earnings that were no different than those obtained by other claimants.

CONCLUSIONS

In conclusion, we believe our study offers two important lessons for policy purposes. First, and foremost, our study indicates that work search policies affect the duration of unemployment and that a streamlined work search policy like the one tested in this experiment has very large adverse consequences for the UI trust fund. As such, it is very important for states to maintain an active work search policy. Second, consistent with other research efforts, we find that a work search policy that incorporates a job-search workshop early in the unemployment spell is a cost-effective method of reducing the duration of unemployment and promoting more rapid reemployment.